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CITY FISCAL CONDITIONS IN 1987

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CITY FISCAL CONDITIONS IN 1987

by

Douglas D. Peterson
Senior Policy Analyst
National League of Cities

June 1987

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TABLE OF CONTENTS

Page

LIST OF FIGURES F-1

LIST OF TABLES T-1

PREFACE i

ACKNOWLEDGEMENTS ii

EXECUTIVE SUMMARY iii

CHAPTER I:

INTRODUCTION 1

CHAPTER II:

THE GENERAL FUND BUDGET 10

CHAPTER III:

BUDGETARY ADJUSTMENTS 31

CHAPTER IV:

THE LOSS OF GRS 43

CHAPTER V:

MAJOR CITY TAXES--"THE BIG THREE" 52

CHAPTER VI:

CITY PERSONNEL 69

CHAPTER VII:

TAX REFORM 78

APPENDICES

A. LIST OF CITIES THAT RESPONDED A-1

B. INFORMATION RETURN FOR TAX EXEMPT GOVERNMENT BOND ISSUES B-1

LIST OF FIGURES

PAGE

FIGURE I-1 POPULATION OF THE UNITED STATES LIVING IN CITIES 3

FIGURE I-2 DISTRIBUTION OF UNITED STATES CITIES BY POPULATION SIZE CLASS AND METROPOLITAN STATUS 4

FIGURE I-3 DISTRIBUTION OF TOTAL MUNICIPAL POPULATION BY SIZE OF CITY 4

FIGURE I-4 CITIES AS A SHARE OF GOVERNMENTAL ACTIVITIES IN THE UNITED STATES 5

FIGURE I-5 TOTAL MUNICIPAL FINANCIAL ACTIVITY BY CITY SIZE 6

FIGURE III-1 SOURCES OF CITY REVENUE 1984-85 36

FIGURE V-1 CITY GOVERNMENT REVENUE FY 1984-85 52

FIGURE V-2 CITY TAX COLLECTIONS FROM "BIG THREE TAXES" PROPERTY, SALES AND INCOME 53

FIGURE V-3 GENERAL SALES TAX COLLECTIONS BY LEVEL OF GOVERNMENT 63

FIGURE V-4 INCOME TAX COLLECTIONS BY LEVEL OF GOVERNMENT 64

FIGURE VI-1 TOTAL MUNICIPAL EMPLOYMENT 1970-85 69

FIGURE VI-2 TOTAL MUNICIPAL EMPLOYMENT BY FUNCTION 1985 71

FIGURE VII-1 PRIORITIES FOR CHANGE FEDERAL TAX LAW ON MUNICIPAL BONDS 83

LIST OF TABLES

TABLES PAGE

I-1 CITIES SURVEYED BY CITY SIZE 7

I-2 RESPONDENTS BY STATE AND POPULATION 7a

I-3 RESPONDENTS BY REGION 8

I-4 REGIONS AND DIVISIONS 9

II-1 MONTH IN WHICH FISCAL YEAR ENDS 14

II-2 GENERAL FUND REVENUE CHANGE 14

II-3 CITIES WITH DECLINING GENERAL REVENUE BY REGION 15

II-4 PERCENT OF CITIES IN EACH SIZE CLASS WITH A GENERAL FUND REVENUE DECLINE 15

II-5 CITY REVENUE INCREASES OVER FIVE PERCENT BY REGION 16

II-6 CITY REVENUE INCREASES EXCEEDING FIVE PERCENT BY POPULATION SIZE 16

II-7 EXPENDITURE EXPECTATIONS 17

II-8 LOWER CITY SPENDING BY REGION 17

II-9 LOWER SPENDING BY POPULATION SIZE OF CITY 18

II-10 CITY SPENDING INCREASES OVER FIVE PERCENT BY REGION 19

II-11 SPENDING INCREASES 19

II-12 SPENDING INCREASES OVER 15 PERCENT BY POPULATION SIZE 20

II-13 SPENDING INCREASES OVER 15 PERCENT BY REGION 20

II-14 CITY GENERAL FUND EXPENDITURE/REVENUE RELATIONSHIP 21

PAGE

II-15 PERCENTAGE OF CITIES REPORTING EXPENDITURES EXCEEDING REVENUES IN GENERAL FUND BUDGETS 22

II-16 IMBALANCE INDEX 1985,1986 AND 1987 PROJECTED 24

II-17 PERCENT AT CITIES REPORTING REVENUE-EXPENDITURE IMBALANCES 25

II-18 PERCENT OF CITIES IN EACH REGION WITH IMBALANCE INDEXES WORSE THAN 5 PERCENT 25

II-19 PERCENT OF CITIES IN EACH POPULATION CLASS WITH IMBALANCE INDEXES WORSE THAN 5 PERCENT 26

II-20 PERCENT OF CITIES WITH 1987 BEGINNING BALANCES OF FOLLOWING SIZES WHEN MEASURED AS PERCENT OF EXPENDITURES 28

II-21 SIZE OF 1987 BEGINNING BALANCE AS PERCENT OF EXPENDITURES BY REGION 28

II-22 SIZE OF 1987 BEGINNING BALANCE AS PERCENT OF EXPENDITURES BY POPULATION SIZE 29

II-23 CHANGES IN GENERAL FUND BALANCE DURING 1987 . . . 30

III-1 BUDGET ADJUSTMENTS REPORTED BY CITIES 32

III-2 CITY TAX MEASURES FREQUENCY AND SUCCESS RATE OF ELECTIONS 41

IV-1 PERCENT OF GRS RECEIVED FOR CITIES WITH FISCAL YEAR ENDING IN DIFFERENT MONTHS 43

IV-2 THE LOSS OF GRS: WHAT AREA WILL BE AFFECTED 45

IV-3 PERCENTAGE OF CITIES LOCATED IN STATES WITH ACTUAL OR POTENTIAL GRS REPLACEMENT PROGRAMS 48

V-1 1987 RELATIONSHIP BETWEEN PROPERTY TAX RATE AND PROPERTY TAX COLLECTIONS 59

V-2 PERCENT OF CITIES WITH THE FOLLOWING CHANGES IN PROPERTY TAX ELEMENTS (CHANGES IN RATE, VALUE AND COLLECTIONS) 61

PAGE

V-3 PERCENTAGE OF CITIES MAKING SALES TAX RATE CHANGES 64

V-4 PERCENTAGE OF CITIES REPORTING CHANGES IN SALES TAX COLLECTIONS BY CATEGORY OF CHANGE 65

V-5 ANNUAL PERCENT CHANGE IN U.S. RETAIL SALES 66

V-6 PERCENTAGE OF CITIES REPORTING CHANGE IN INCOME TAX COLLECTIONS 68

VI-1 TOTAL MUNICIPAL EMPLOYMENT BY CITY SIZE 72

VI-2 PERCENTAGE COMPOSITION OF MUNICIPAL WORKFORCE BY POPULATION SIZE OF CITY 72

VI-3 MUNICIPAL PERSONNEL CHANGE PERCENTAGE OF CITIES REPORTING CHANGES 73

VI-4 MUNICIPAL EMPLOYMENT PERCENT OF CITIES REPORTING CHANGES 74

VI-5 PERCENT OF CITIES IN EACH REGION REPORTING DECLINES IN MUNICIPAL EMPLOYMENT 75

VI-6 PERCENT OF CITIES REDUCING EMPLOYMENT WITHIN EACH POPULATION CLASS 75

VI-7 PERCENTAGE OF CITIES IN EACH REGION REPORTING INCREASED CITY EMPLOYMENT 76

VI-8 PERCENTAGE OF CITIES IN EACH POPULATION SIZE CLASS REPORTING INCREASE CITY EMPLOYMENT 77

VII-1 THE CASTE SYSTEM OF MUNICIPAL BONDS AFTER THE 1986 TAX REFORM LAW 86

VII-2 ACTIVITIES WHICH MAY RESULT IN RETROACTIVE PENALTY ON A MUNICIPAL BOND 87

VII-3 AVERAGE SCORE SUPPORTING CHANGE IN ARBITRAGE RESTRICTIONS ON MUNICIPAL DEBT BY POPULATION SIZE 91

PREFACE

This fifth annual National League of Cities City Fiscal Conditions Report presents the results of a survey sent to American cities in March 1987. It is one of a series of reports published by NLC in a continuing effort to provide current information on the state of America's cities.

This survey expands on previous surveys by including data on the levels of city taxes. A special element of this year's survey was a series of questions about the 1986 federal income tax reform law.

The report was prepared by NLC's Office of Policy Analysis and Development. Douglas Peterson, NLC Senior Policy Analyst, was responsible for developing the survey, analyzing the results, and preparing this report.

It is our hope that conducting this survey and publishing this report will contribute to a continuing discussion of and better understanding of the financial conditions of America's cities and towns. It is our further hope that this will in turn lead to more informed policy-making aimed at the improvement of these conditions.

Alan Beals
Executive Director
National League of Cities

William E. Davis, III
Director, Office of
Policy Analysis and Development

ACKNOWLEDGEMENTS

First, and most importantly, I would like to express my appreciation to the over 550 City Budget Officers, Finance Directors, Mayors, City Clerks, and other municipal officials who made time in their busy schedules to complete the questionnaire on which this report is based. Without their prompt and conscientious participation, the report would not be possible. I hope that they find that the quality and usefulness of this report matches the quality of their efforts.

Second, to Mr. William Davis, Director of NLC's Office of Policy Analysis and Development and Mr. William Barnes, NLC's Research Director for their continuing guidance and encouragement.

Third, special thanks to Ms. Deborah E. Johnson, Ms. Althea Ray, Ms. Lesley-Ann Rennie, Ms. Leah Thomas, and Ms. Karen Parker for their skillful assistance with not only the data input, but also the conversion of numerous drafts into this final document.

Additionally, to Mr. Jeff Fletcher, Marketing Director, Mr. Frank Shafroth, Director of Federal Relations, and Mr. Randy Arndt, Media Director all of the NLC staff for their helpful suggestions as the survey was developed.

Douglas D. Peterson
Senior Policy Analyst
Office of Policy Analysis
and Development

CITY FISCAL CONDITIONS IN 1987

by

Douglas D. Peterson
National League of Cities

July 1987

EXECUTIVE SUMMARY

America's cities and towns are currently in a challenging year of fiscal transition. Two critical events during the past twelve months have begun a major alteration in the municipal financial picture. First, General Revenue Sharing, a program which provided twenty-four (24) percent of the direct federal aid to American cities, was terminated in September, 1986. Second, the federal tax reform law, signed October 23, 1986, has dramatically impacted the ability of cities to raise capital locally due to the many new constraints placed on the use of tax exempt municipal bonds.

Because city fiscal years generally don't correspond with the federal fiscal year the complete impact of these two changes has not been fully registered by most of the city budgets included in this survey. Some early signals, however, are reflected in the results of this survey which was conducted in March 1987 and includes responses from 545 cities and towns.

City and town budgets remain subject to the slow growing, but regionally uneven, U.S. economy and are becoming increasingly vulnerable to its fluctations. This vulnerability is evidenced in a number of facts:

(1) the loss of almost one quarter of direct federal assistance with the cancellation of General Revenue Sharing;

(2) the large percentage of cities that are reducing their general fund balances and thereby lessening their ability to cope with future fluctuations;

(3) the large percentage of cities that report having already made reductions in capital spending and also say the loss of GRS will heavily impact capital spending in the future; this is significant because it means that city budgets will be proportionately more heavily composed of operating costs which are inherently more difficult to control and which more immediately result in service cuts when reduced;

(4) the large percentage of cities and towns which are already operating at the tax limits permitted by state law.

General Fund Revenues -- One out of three U.S. cities expect to see an actual, general fund revenue decline in fiscal year 1987. This is almost twice as large a percentage as seen in 1986. An increasing percentage of cities in all regions of the country expect to see this revenue decline. The situation is more pressing for the cities with populations between 1,000 and 10,000; one half of these communities expect to experience general fund revenue reductions.

The three largest sources of tax revenue to cities are: property, sales, and income taxes. Cities, however, are constrained in their ability to raise these taxes by state imposed limitations. Forty-three percent of the cities that are subject to a property tax cap indicate they are at the limit; this is true in eighty (80) percent of the cities with state sales tax caps and twenty-three (23) percent of those with income tax caps.

General Fund Expenditures -- One-fifth of all the cities expect their general fund spending to decline in 1987. The smaller the size of the city, the greater the percentage expecting this to occur; only five percent of the cities over 300,000 expect this to occur, but twenty-eight (28) percent of the cities under 10,000 expect this to occur.

During the past year fifty-five (55) percent of the cities have reduced capital spending, fifty-five (55) percent have reduced the rate of growth in operating spending, and fifty-eight (58) percent have increased the level of user fees, charges, and other non tax revenues. An increasing number of cities continue to see their current general fund expenditures outpace their current general fund revenues. Many cities are therefore reducing their balances in order to keep the general fund budget in the black.

The loss of GRS -- The loss of GRS, while not yet completely felt, is having an impact. Of those cities reducing capital spending in the past year, eighty-one (81) percent said the loss of GRS was an influential factor. Forty-four (44) percent say that the loss of GRS will significantly impact their capital spending.

One-fifth of the communities say that the loss of GRS will significantly impact their police and fire operations.

Of those cities that have increased tax rates in the past year, seventy (70) percent cite the loss of GRS as an influential factor.

Federal Tax Reform -- Federal tax reform legislation has made the acquisition of capital for local projects significantly more complex and will further impact the decline in capital spending. Eighty percent of the responding city officials said it was very important to "again make interest on municipal bonds completely tax exempt by removing municipal bond interest from any computation of tax liability."

City Employment -- More than one quarter of the cities in this survey are reducing the size of their city workforce in 1987. This follows on 1986 when one quarter of the cities reduced their municipal employees. Even in the cities that report 1987 increases in employment, the additions will be modest; only eleven (11) percent of the cities report increasing 1987 city employment by more than five percent.

Further details on each of the foregoing findings can be found in the body of the report, and the reader is directed there for a fuller discussion of each.

CHAPTER I

INTRODUCTION

This study reports on the fifth annual survey of city fiscal conditions of America's cities conducted by the National League of Cites.

The League conducts this survey as part of its continuing research and information program for America's municipalities.

While a complete analysis of an individual city's fiscal health involves an examination of a host of factors beyond the scope of this survey, it is hoped that this report based on responses by a cross section of American cities, can establish a baseline for further individual analyses.

The responses of the 545 cities, who completed the survey documents, have enabled preparation of a report with representation from throughout the country.

The emphasis in this report is not to aggregate the municipal financial experience but rather to demonstrate its variations. If the financial transactions of all cities are simply added up, the result is a homogenization in which the variety of the municipal fiscal landscape is lost.

The report provides information on a variety of city financial indicators including:

- the trend in general fund revenues, expenditures, and balances
- the trend of city tax rates and tax collections

- the trend in municipal hiring
- the impacts on cities of the loss of general revenue sharing
- budget adjustments made by cities in the last year and the factors influencing these adjustments
- preferences for modifying the new federal income tax law particularly as it affects municipal bonds.

The report also provides information on city tax elections, state actions to help fill the municipal funding gap left by the termination of general revenue sharing, and reports on cities that are operating at the margins of state taxing limits.

All of these factors are important, but all are of a narrow accounting nature. They look only at taxes levied, money spent, and financial balances. To get a more complete picture of city fiscal conditions, there is a need for indicators of comparable strength that measure service deficits and surpluses, that is, indexes of the services which citizens receive and deserve. This report does not provide these equally important measures, but it is hoped that some useful trend data is provided which can assist in individual community assessments and contribute to national and state policy discussions about municipal policies that invest in the future of America's cities and towns.

Why are cities important?

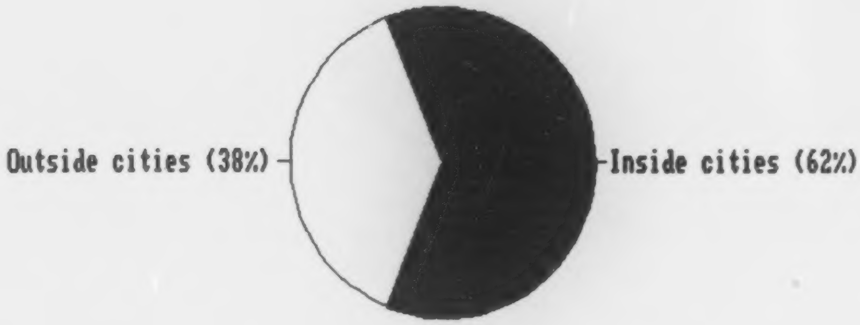
There are over 19,000 government units in the United States classified by the U.S. Census as municipalities. Their formal title may be city or town or village but they share an important common function--the delivery of services to their citizens.

It is a diverse group ranging from New York City, whose population is larger than that of all but eight states, whose municipal workforce is larger than the total population of all but 34 American cities, and which spends 18 percent of all the money spent by U.S. municipalities, to the smallest incorporated places with populations of less than 50 people and which provide virtually all their services through the use of volunteers.

Over 60 percent of the U.S. population resides in cities.

FIGURE I-1

POPULATION of the UNITED STATES LIVING in CITIES

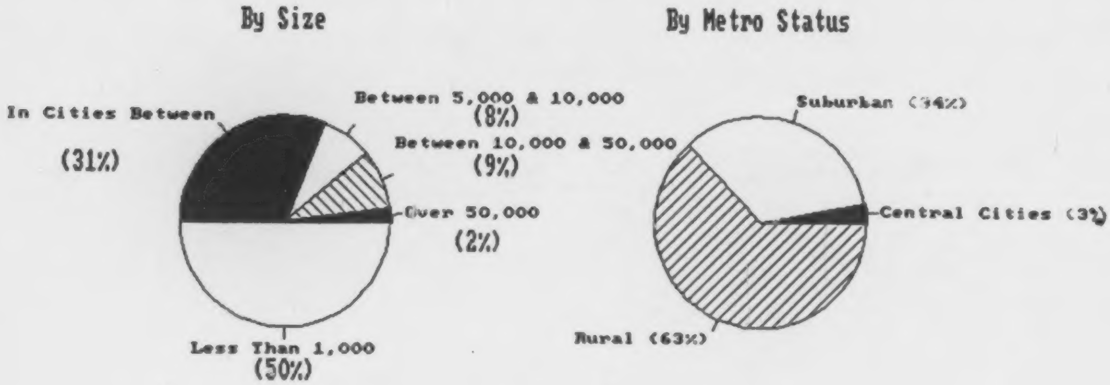


1980 Population

As mentioned previously there is a diversity in the size of cities. According to 1980 federal data there are over 19,000 U.S. municipalities; when divided by size and metropolitan status they are distributed as follows:

FIGURE I-2

DISTRIBUTION of U.S. CITIES
by POPULATION SIZE CLASS and METROPOLITAN STATUS

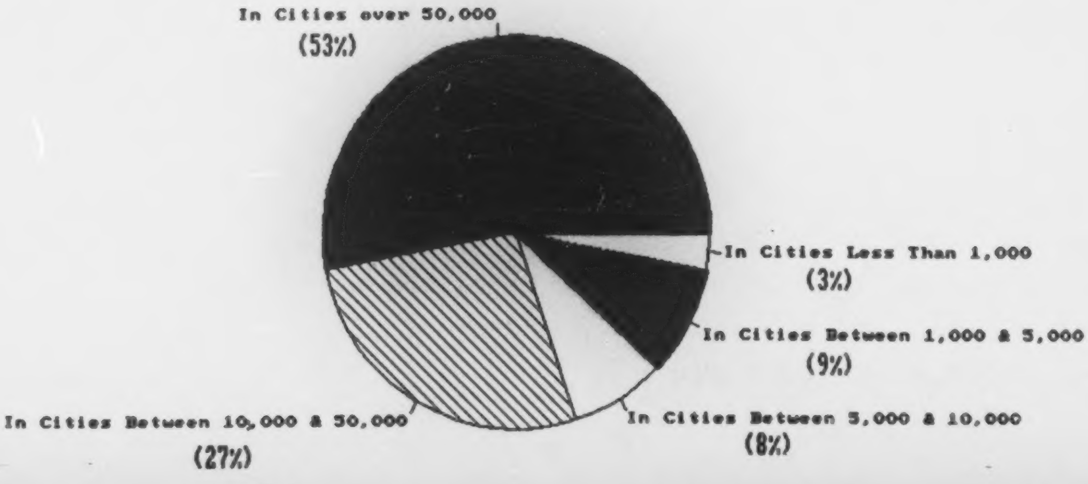


Suburban City - in Metro Area not central city
Rural - outside Metro Area

When the population living within these cities is examined, a reversal of the previous pattern occurs; the fewer, larger cities contain the bulk of the municipal population.

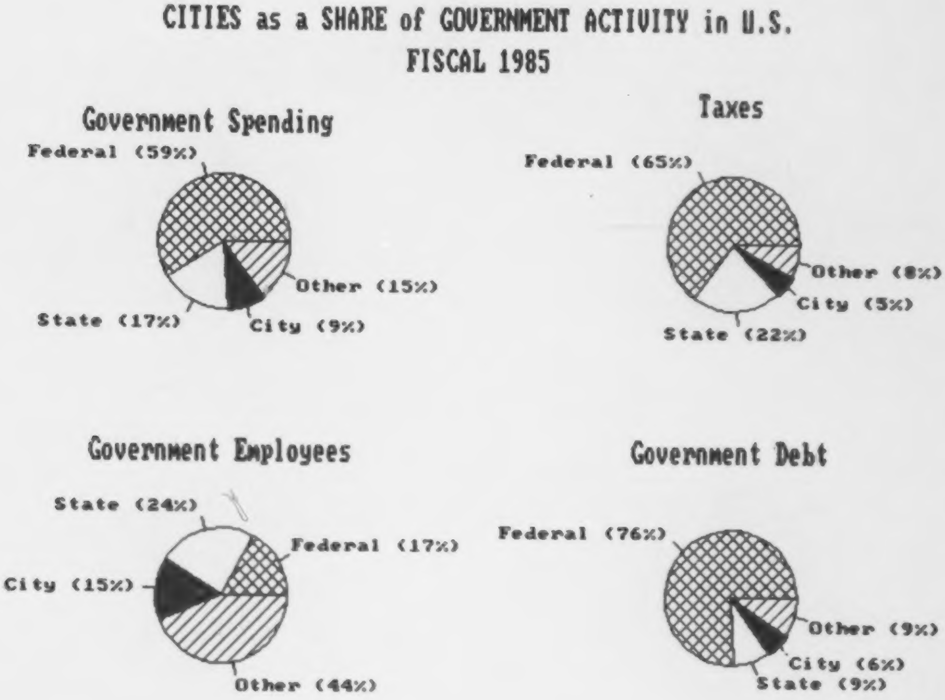
FIGURE I-3

DISTRIBUTION of TOTAL MUNICIPAL POPULATION
BY SIZE of CITY



When viewed as part of the American Governmental Financial System, cities are also significant.

FIGURE I-4



CITIES as a SHARE of GOVERNMENT ACTIVITY in U.S.
FISCAL 1985

Government Spending

Taxes

Government Employees

Government Debt

Taxes include Social Security and unemployment

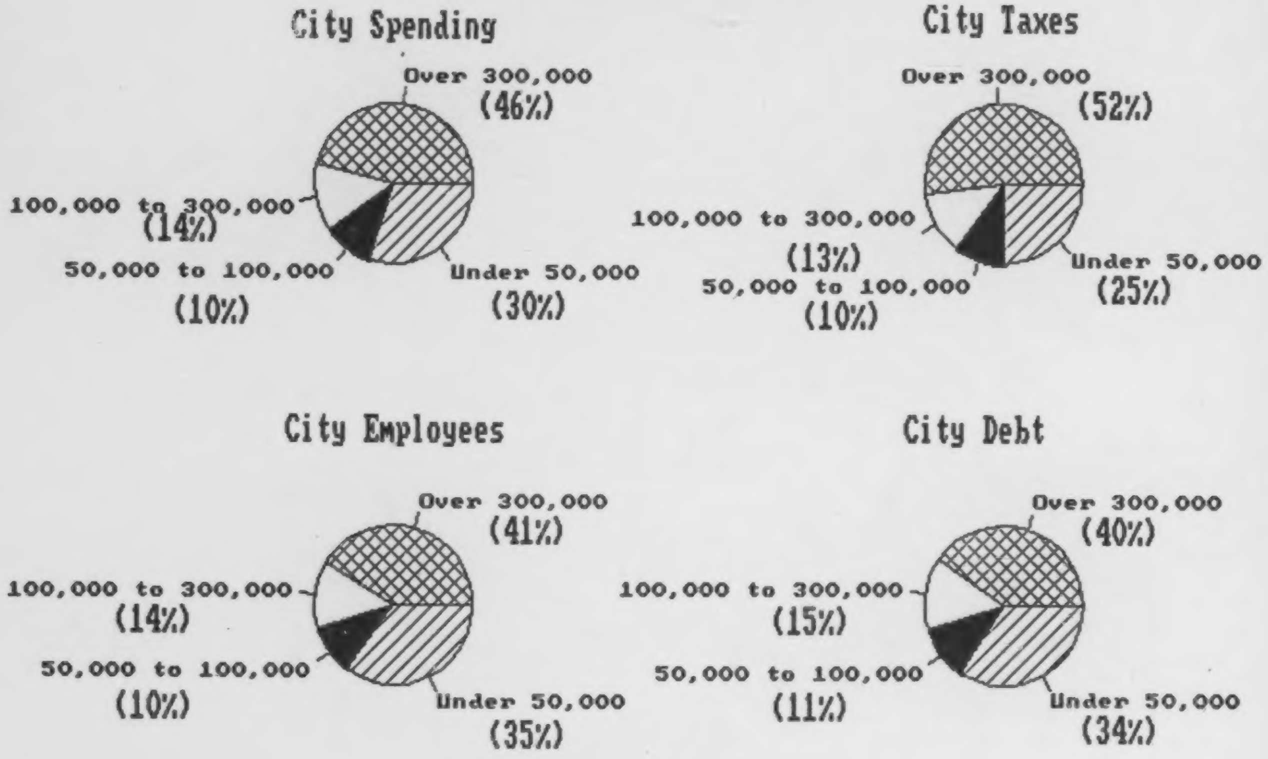
Source: U.S. Census - "Governmental Finances 1984-5", "Public Employment 1985"

As the solid areas on these graphs indicate, cities are responsible for nine percent of all governmental spending, levy five percent of all taxes, employ 15 percent of all civilian government employees, and are responsible for six percent of all governmental debt outstanding.

When the city figures are examined on a city size basis, the following shares are revealed.

FIGURE I-5

TOTAL MUNICIPAL FINANCIAL ACTIVITY
by CITY SIZE - FY 1985


City Spending

City Taxes

City Employees

City Debt

Example-Cities over 300,000 represented 46% of all city spending

Source: U.S. Census, "City Government Finances
1984-85", "City Employment 1985"

The purpose of this report is to indicate where cities have been in the recent past and what they face in fiscal 1987.

How the Survey was Done and Which Cities Responded

In March, 1987, a city fiscal conditions questionnaire was sent to 1423 American cities by NLC's Office of Policy Analysis and Development. The questionnaire asked for a three year history of a number of items:

- Summary of General Fund transactions
- Property tax rates, collections, and assessed value
- Sales tax rates and collections
- Income tax rates and collections
- Municipal personnel

Also included were a series of questions on federal tax reform and adjustments made in reaction to the reduction in federal funds for cities.

TABLE I-1

CITIES SURVEYED BY CITY SIZE

City Population Size	Total Number of Cities in This Class	Number of Surveys Sent	Percent Surveyed	Number Respond.
300,000 and over	49	49	100	37
100,000 to 299,999	127	127	100	67
50,000 to 99,999	250	250	100	105
10,000 to 49,999	1,787	717	40	236
5,000 to 9,999	1,515	165	11	46
1,000 to 4,999	5,850	210	4	51
less than 1,000	9,514	18	---	3
	19,076	1,423	7	545

TABLE I-2

1987 NLC FINANCIAL SURVEY
CITIES TABULATED BY STATE AND POPULATION SIZE

States	Total	Over 300,000	100,000 to 299,999	50,000 to 99,999	10,000 to 49,999	Under 10,000
Alabama	11	1	1	2	2	5
Alaska	2	-	1	-	-	1
Arizona	13	1	4	1	4	3
Arkansas	4	-	1	2	-	1
California	57	6	9	20	21	1
Colorado	16	1	2	4	5	4
Connecticut	8	-	1	5	2	-
D.C.	1	1	-	-	-	-
Delaware	4	-	-	1	2	1
Florida	30	1	5	8	13	3
Georgia	13	1	1	-	6	5
Hawaii	1	1	-	-	-	-
Idaho	2	-	1	-	1	-
Illinois	27	1	2	6	14	4
Indiana	10	1	3	-	4	2
Iowa	15	-	3	3	6	3
Kansas	13	-	3	2	6	2
Kentucky	9	-	-	2	3	4
Louisiana	11	1	1	2	2	5
Maine	1	-	-	1	-	-
Maryland	6	1	-	-	2	3
Massachusetts	4	1	1	1	1	-
Michigan	24	1	2	7	11	3
Minnesota	19	1	-	3	13	2
Mississippi	8	-	1	-	6	1
Missouri	17	2	1	1	11	2
Montana	5	-	-	1	3	1
Nebraska	10	-	1	-	6	3
Nevada	3	-	1	-	1	1
New Hampshire	2	-	-	-	2	-
New Jersey	1	-	-	1	-	-
New Mexico	6	1	-	1	3	1
New York	7	1	1	-	4	1
North Carolina	21	1	3	2	7	8
North Dakota	4	-	-	-	2	2
Ohio	26	3	1	6	12	4
Oklahoma	8	-	-	-	6	2
Oregon	10	1	1	-	5	3
Pennsylvania	7	2	1	4	-	-
Puerto Rico	-					
Rhode Island	1	-	-	1	-	-
South Carolina	9	-	-	-	6	3
South Dakota	5	-	-	1	3	1
Tennessee	12	1	-	1	6	4
Texas	33	3	5	7	14	4
Utah	3	-	1	1	1	-
Vermont	-					
Virginia	10	-	6	1	2	1
Washington	15	1	2	2	10	-
West Virginia	5	-	-	2	1	2
Wisconsin	9	1	1	3	3	1
Wyoming	7	-	-	-	5	2
TOTALS	**545**	**37**	**67**	**104**	**237**	**99**

Over 500 cities returned the survey document in time to be included in this report. Table I-2 reports the distribution of the responding cities by population size and state. A complete list of the responding cities is included in the Appendix.

The population size of the responding cities ranged from 757 in Esterwood, Louisiana to 7,164,742 in New York City.

On a regional basis, the respondents were distributed as follows:

TABLE I-3

RESPONDING CITIES BY REGION AND POPULATION SIZE

	Total	Over 300,000	100,000 to 299,999	50,000 to 99,999	10,000 to 49,999	Under 10,000
Northeast	31	4	4	13	9	1
Midwest	178	10	16	32	91	29
South	195	11	24	30	78	52
West	141	12	23	30	59	17
	545	37	67	105	237	99

The regional breakdowns used are as defined by U.S. Census Bureau. The composition of these four regions and their component divisions is shown on Table I-4.

TABLE I-4

REGIONS AND DIVISIONS

Northeast Region

- New England Division
  - Maine
  - New Hampshire
  - Vermont
  - Massachusetts
  - Rhode Island
  - Connecticut

- Mid-Atlantic
  - New York
  - New Jersey
  - Pennsylvania
  - Puerto Rico

North Central Region

- East North Central
  - Ohio
  - Indiana
  - Illinois
  - Michigan
  - Wisconsin

- West North Central
  - Minnesota
  - Iowa
  - Missouri
  - North Dakota
  - South Dakota
  - Nebraska
  - Kansas

South Region

- South Atlantic
  - Delaware
  - Maryland
  - District of Columbia
  - Virginia
  - West Virignia
  - North Carolina
  - South Carolina
  - Georgia
  - Florida

- East South Central
  - Kentucky
  - Tennessee
  - Alabama
  - Mississippi

- West South Central
  - Arkansas
  - Louisiana
  - Oklahoma
  - Texas

West Region

- Mountain
  - Montana
  - Idaho
  - Wyoming
  - Colorado
  - New Mexico
  - Arizona
  - Utah
  - Nevada

- Pacific
  - Washington
  - Oregon
  - California
  - Alaska
  - Hawaii

CHAPTER II

THE GENERAL FUND BUDGET

The survey asked respondents for a three year history of their city's general fund budget in order to provide an indication of municipal budget trends.

What were the cities asked for?

The cities were asked for a three year history/projection of their general fund budget.

I. For the City's General Fund

The officials were asked to provide information for their city's general fund.

The general fund was selected as the focus of this report for the following important reasons:

1) "The general fund is normally the most important fund of a municipality. It accounts for all resources not otherwise devoted to specific activities and finances many of the basic municipal functions . . ." (Reference, International City Management Association (ICMA), Management Policies in Local Government Finance, p. 209.)

2) The general fund is frequently a central focus of local budget deliberations since it usually finances such central municipal functions as police, fire, public works, planning and central administrative departments. It is also the area where state imposed limitations on taxing and spending are often most binding.

The general fund frequently does not include all the expenditures a city makes.

The proportion of a city's spending incorporated in the general fund can show substantial variation depending on: (1) the complexity of a city's accounting system and the dictates of federal or state laws; (2) borrowing requirements imposed by lenders; and (3) the functions which a city carries out. As mentioned before, in some very small communities one hundred percent of the budget may be in one general fund. In larger communities there will be significant variations.

Some examples from three cities chosen at random show that the general fund represented the following proportions of total city spending: Greensboro, North Carolina sixty-two percent, San Diego, California fifty-one percent and Phoenix, Arizona thirty-six percent. (Sources: Greensboro - 1984-85 budget, San Diego - 1985 budget addendum and Phoenix - 1985-86 budget).

Under governmental accounting practices used by cities, separate funds may be established to account for resources, especially those that are dedicated for a particular purpose. When a city begins and for a very small community, one general fund may be sufficient to account for all financial operations. In most communities, even those of modest size, a number of funds are required. Examples of operations that are frequently set up in funds separate from the general fund would include:

A. Enterprise Funds -- for example, municipally operated sewer, water, and electric utilities which are established to be self sustaining through customer service charges.

B. Debt Service Funds -- which are set up to receive dedicated revenues used to make principal and interest payments on city debt.

C. Trust Funds -- for example bequests which are to be spent only for particular purposes.

D. Special Revenue Funds --- such as those set up for account for federal or state grants given to accomplish particular projects.

II. Four Numbers

They were asked to provide four figures for each year.

Beginning Balance -- Simply speaking, these are the resources with which the city's general fund begins the year. If the city's general fund were a personal checking account, this would be like the balance carried forward from the previous month.

Revenues (and transfers in) -- This is the grand total of all taxes, fees, charges, federal and state grants, and other monies deposited into the general fund. While revenues are generally recurring items, the "transfers into general fund" also lumped into this item might not be of a regular nature. These transfers occur when a city brings funds from one of its other specialized funds into the general fund for a variety of reasons.

Expenditures (and transfers out) -- This is the total of all spending by the general fund of the city and may include both operating and capital spending. As on the expenditure side, transfers out of the general fund to other funds of the government are also included here.

Ending Balance -- These are the resources with which the city's general fund is left at the end of the year. The ending balance results from this simple equation: (Beginning Balance + Revenue - Expenditures = Ending Balance). The ending balance of year one becomes the beginning balance of the ensuing year.

III. For three years

The cities were asked to provide the general fund summary figures previously described for each of three years.

A. The fiscal year which ended in 1985
B. The fiscal year which ended in 1986
C. The fiscal year which will end in 1987

The Surveys were completed in March and April of 1987, consequently respondents had to use estimated or budget figures for 1987. It is to be expected that actual 1987 figures will differ from those reported here. Some of the 1986 figures are also subject to adjustment, particularly those for cities with fiscal years ending in December.

The fiscal year used by cities within a state tend to be uniform and are often specified by state law. The following fiscal years were reported by the responding cities.

TABLE II-1

MONTH IN WHICH FISCAL YEAR ENDS

Fiscal Year Ending	Percent of Responding Cities
June	47
December	29
September	16
July	2
April	3
Other	3
Total	100

Revenues

This section of the report looks at the rates of growth in general fund revenues experienced by the surveyed cities during two time periods (1) Fiscal year 1985 to 1986 and (2) Fiscal year 1986 to 1987.

One of the most striking things is the variety of city revenue change.

TABLE II-2

GENERAL FUND REVENUE CHANGE PERCENT OF CITIES

	FY 85 to 86	FY 86 to 87
Revenue declined	17%	33%
Revenue holding constant	4	5
Revenue increasing	79	62
	100%	100%

Almost twice as many cities anticipate actual declines in their revenues in 1987 than the percentage who saw this occur in 1986. One out of three cities expect to see their revenue decrease.

TABLE II-3

CITIES WITH DECLINING GENERAL REVENUE BY REGIONS

	FY 85 to 86	FY 86 to 87
All Regions	17%	33%
Northeast	11	16
Midwest	17	33
South	21	36
West	17	32

An increased percentage of cities in all regions expect to see general fund revenue declines. The largest percentage of cities who expect to see revenue declines are in the South where thirty-six percent of the cities expect to see declining revenues. The lowest percentage who expect to see revenue declines is in the Northeast, but the small number of respondents from this region is raised as a caution in interpreting this result.

TABLE II-4

PERCENT OF CITIES IN EACH SIZE CLASS WITH A GENERAL FUND REVENUE DECLINE

Population Size	FY 85 to 86	FY 86 to 87
All Cities	**17%**	**33%**
300,000 and over	3	8
100,000 to 299,999	16	18
50,000 to 99,999	13	34
10,000 to 49,999	20	33
less than 10,000	28	53

Over half (53%) the cities of less than 10,000 population expect to see an actual decline in their general fund revenue. Much smaller percentages of the cities over 100,000 population expect to see a revenue decline, while one third of those between 10,000 and 50,000, who compose the largest number of respondents, expect to see a revenue decline. In every size category there is an increase in the percentage of cities who expect to experience a general fund revenue decline during the 1987 fiscal year.

What about those cities who expect a revenue increase? Roughly 30 percent of the cities in both years expect to see a modest revenue increase of between one and five percent. Those that expect general fund revenue increases in excess of five percent come from the following regions and size classes.

TABLE II-5

CITY REVENUE INCREASES OVER FIVE PERCENT BY REGION

	FY 85 to 86	FY 86 to 87
All cities	52%	33%
Northeast	67	57
Midwest	39	31
South	51	27
West	65	39

While fifty-two percent of all cities in 1986 saw revenue increase more than five percent, only thirty-three percent expect to see this rate of growth in 1987. This drop from fifty-two percent to thirty-three percent is a thirty-seven percent decrease.

Second, a smaller percentage of cities in each region expect to see this favorable rate of revenue growth in 1987.

TABLE II-6

CITY REVENUE INCREASES EXCEEDING FIVE PERCENT BY POPULATION SIZE

Population Class	FY 85 to 86	FY 86 to 87
All Cities	52%	33%
300,000 and over	48	24
100,000 to 299,999	61	48
50,000 to 99,999	58	37
10,000 to 49,999	48	34
less than 10,000	47	22

As the above table shows, a much smaller percentage of cities in each size class expect to see revenue increases exceeding five percent in 1987. The cities of 100,000 to 200,000 population are the most optimistic about this prospect while those of less than 10,000 are the most pessimistic.

Expenditures

City general fund spending patterns exhibit as much variety as the revenue growth patterns which were just described.

TABLE II-7

EXPENDITURE EXPECTATIONS

Cities Who Expect Expenditures To:	FY 85 to 86	FY 86 to 87
Decline	18%	21%
Be constant	3	4
Increase	79	75
	100%	100%

The percentages of cities falling into these three broad categories are quite consistent from year to year. A slightly greater percentage of cities expect their general fund expenditures to decline while slightly fewer expect to see an increase.

TABLE II-8

LOWER CITY SPENDING BY REGION

	FY 85 to 86	FY 86 to 87
Total	**18%**	**21%**
Northeast	4	16
Midwest	16	19
South	20	26
West	18	20

The percentages are fairly consistent from year to year when evaluated on a regional basis. The largest apparent change is the much greater percentage of Northeastern cities who expect to see a spending decline. When interpreting this Northeastern statistic, the finding must be viewed cautiously because of the small number of Northeastern cities that responded.

TABLE II-9

LOWER SPENDING BY POPULATION SIZE OF CITY

Population Class	FY 85 to 86	FY 86 to 87
All Cities	**18%**	**21%**
300,000 and over	11	5
100 to 299,999	15	10
50 to 99,999	14	22
10 to 49,999	17	24
less than 10,000	25	28

One in five of the cities (21%) expect General Fund Spending to decline from 1986 to 1987. There is a consistent pattern in this, the smaller the city size, the greater the expectation of a general fund spending decline.

TABLE II-10

CITY SPENDING INCREASES OVER FIVE PERCENT BY REGION

Region	FY 85 to 86	FY 86 to 87
All Cities	**54%**	**56%**
Northeast	74	57
Midwest	49	57
South	55	48
West	56	65

TABLE II-11

SPENDING INCREASES OVER FIVE PERCENT BY POPULATION SIZE

Percent of Cities in Each Population Size Class Which Expect Spending to Increase by More Than 5%

Size Class	FY 85 to 86	FY 86 to 87
All Cities	**54**	**56**
300,000 and over	54	60
100,000 to 299,999	64	60
50,000 to 99,999	62	58
10,000 to 49,999	51	57
less than 10,000	50	46

There is a mixed pattern between the two time periods in this measure. While there is a slight increase overall in the number of cities expecting expenditure increases exceeding five percent, some population classes expect a slight decline while others a slight increase in this rate. No consistent pattern emerges.

When one looks at these cases where expenditure increases in 1987 are expected to exceed the higher figure of fifteen percent, an interesting pattern does emerge. As city size decreases, the percentage of cities expecting an expenditure increase exceeding fifteen percent increases.

TABLE II-12

SPENDING INCREASES OVER 15 PERCENT BY POPULATION SIZE

City Size	
300,000 and over	3%
100,000 to 299,999	14%
50,000 to 99,999	20%
10,000 to 49,999	24%
less than 10,000	25%

Looking at this high growth in expenditures on a regional basis another pattern emerges.

TABLE II-13

SPENDING INCREASES OVER 15 PERCENT BY REGION

Northeast	11%
South	18%
Midwest	20%
West	26%

The west and midwest have greater numbers of cities who expect very rapid expenditure increases followed by the south and northeast.

How do cities see their revenues matching up with expenditures?

Expenditures and revenues of municipalities are not independent of each other, but rather, interdependent. At times, tax and revenue policy will be consciously designed to underwrite expanded programs, and, at other times, natural revenue increases will permit program expansions, tax cuts, or attacks on backlogged capital spending needs. On the other hand, revenue decreases often force reductions in levels of service and spending levels. At other times, cities make conscious decisions to reduce revenues and provide a smaller package of service.

Most cities are required by state or municipal law to produce budgets that balance. This means total resources must exceed total spending. Resources include beginning balances and revenues not just revenue alone.

The first step in this analysis is to see just how current year revenues and expenditures match up without the consideration of beginning balances.

TABLE II-14

CITY GENERAL FUND EXPENDITURE/REVENUE RELATIONSHIP

Fiscal Year	1985	1986	1987
Expenditure exceeding Revenue	30%	35%	56%
Expenditure equaling Revenue	9	11	26
Expenditure less than Revenue	61	54	18
	100%	100%	100%

During 1987, fifty-six percent of the cities expect expenditures to exceed revenues. If this pattern is borne out in actual results, it will force the drawing down of beginning balances. This would represent a sixty percent increase from 1986 results. There is a natural pessimistic bent to city government budget so actual results in 1987 probably won't be quite this extreme. In order to guarantee a positive balance, revenue estimates must be conservative while expenditure requirements must be pessimistic.

Even when this predictable budgeting tendancy is discounted it is clear that this is not an optimistic trend.

It is particularly revealing to look at those fiscal years where actual results are being reported.

TABLE II-15

PERCENTAGE OF CITIES REPORTING EXPENDITURES EXCEEDING REVENUES IN GENERAL FUND BUDGETS

1984	1985	1986
24%	30%	35%

There is a clear, deteriorating trend presented in these figures. The 1984 figure is taken from last year's NLC Fiscal Conditions Survey. This trend is particularly disturbing when viewed against other trends: the beginning of renewed inflationary pressures, the fact that the full "bite" of general revenue sharing losses will take effect in 1988, and the number of states in tight fiscal situations which will have a spin off effect on the cities within them.

Another factor, which makes this trend even more important, is the large number of cities which report reductions in capital spending. Capital spending, particularly the smaller projects reflected in general fund budgets, is often used as a budget relief valve. The full cost of a capital project will be budgeted, but with planning, approval processes, and design processes the project may not be ready for contract award until the end of the fiscal year. If the budget is tight, the project award may be deferred. This deferral results in immediate savings, and this helps in budget control.

With lower levels of capital spending reported by cities, this means that greater portions of municipal budgets will be operating spending,primarily salaries and attendant fringe benefits, for municipal employees. These expenses are much harder to control as they are spent regularly over the course of the fiscal year. For example, if a budget reduction is required at the middle of a year, personnel cost reductions have to be "doubled". For example, if personnel costs are $1,000,000 with fifty employees (average cost $20,000) and a required savings of $100,000 is identified at mid-year, then a layoff of 10 employees is required, not five as might first be guessed, since the savings have to be realized in only one half year (1/2 x 20,000 x 10 = $100,000).

This simplified example does not even consider a variety of factors with which cities must deal, for example; minimum notice periods for layoff, varying salary levels, termination benefits, unemployment payments, and many other factors. Delayed spending decisions by the federal and state governments about levels of municipal assistance only make these problems more extreme.

Twenty-six percent of the cities expect revenues and expenditures to be in exact balance. This expected mathematical precision results from the fact that many communities are reporting budget expectations; actual results can be expected to show some variation. The fact remains that one quarter of the cities expect revenue and spending to be very close.

The General Fund Revenue-Expenditure Imbalance Index

What is the extent of the mismatch between current revenues and spending that is expected?

Because general fund budget sizes vary from city to city, it is necessary to reduce the revenue and expenditure figures to some common index. To do this for the most current year, 1987 expenditures are subtracted from 1987 revenues resulting in a basic imbalance. To translate this figure to a common comparative base, this basic imbalance figure is then divided by 1987 expenditures.

Thus, a city with $1,000,000 of revenue and $1,100,000 in expenditure would have an imbalance index of -9 percent. A city with revenues equaling expenditures would have an index of zero. A city with revenues of $1,100,000 and expenditures of $1,000,000 would have a positive index of 10 percent.

As an example, this concept, when applied to the federal budget equivalent of a city general fund budget for fiscal year 1986, produces an imbalance index of -37%. For the current 1987 fiscal year, the figure would be -32%. This index number dramatically shows the imbalance in the financing of general federal activities. (Source: NLC calculations based on Federal Fund Receipts and Expenditures (Excludes trust funds) Table C-2 "Special Analysis Budget of the United States Government Fiscal Year 1988" O.M.B.)

Since some budget variation is normally experienced, a review of the city figures after allowing for a five percent variation from absolute balance in the index in either direction may prove useful.

TABLE II-16

IMBALANCE INDEX 1985, 1986 AND 1987 PROJECTED

Imbalance Index	1985	1986	1987
Worse than -5%	11%	13%	26%
-5 to +5%	62	65	68
Better than +5%	27	22	6
	100%	100%	100%

$$\text{*Imbalance index} = \frac{\text{Revenue} - \text{Expenditure}}{\text{Expenditure}}$$

This tabulation, as would be expected, shows significant clustering around the middle values. The same negative trends identified before are also shown here. Twice as many cities expect an imbalance index exceeding five percent in 1987 as did in 1986. At the other extreme, only six percent of the cities expect a positive balance index exceeding five percent, a seventy-two percent decline from 1986. Again, the conservative estimating tendancies must be factored in. By looking at those years where data is final, the following patterns are shown.

TABLE II-17

PERCENT OF CITIES REPORTING REVENUE-EXPENDITURE IMBALANCES

	1984	1985	1986
Worse than -5%	8%	11%	13%
Better than +5%	33%	27%	22%

These rows show a continuing trend of deterioration although not as extreme as the earlier indication.

When viewed on a regional and city size basis, other trends emerge.

TABLE II-18

PERCENT OF CITIES IN EACH REGION WITH IMBALANCE INDEXES WORSE THAN -5%

Region	1985	1986	1987
All Cities	**11%**	**13%**	**26%**
Northeast	4	4	16
Midwest	8	15	26
South	11	12	19
West	15	14	35

The Northeast, Midwest, and West are the regions where the biggest increases in cities with negative imbalance indexes at this level are anticipated. It may appear counter intuitive to see these trends in regions where revenue growth has generally been strong in the past few years. This, however, just illustrates the interdependence of all these measures. Faster revenue growth has built up balances which allow for higher spending levels and produce more negative imbalance indexes.

On a size basis expected trends emerge.

TABLE II-19

PERCENT OF CITIES IN EACH POPULATION CLASS WITH IMBALANCE INDEXES WORSE THAN -5%

Size Class	1985	1986	1987
All Cities	**11%**	**13%**	**26%**
300,000 and over	3	0	8
100,000 to 299,999	6	12	17
50,000 to 99,999	7	9	26
10,000 to 49,999	13	15	27
less than 10,000	16	17	35

As city size decreases, the percentage of cities with imbalance indexes at this negative level increases. Because of the smaller absolute size of these jurisdictions, percentage changes can naturally be expected to show greater fluctuation. As was described in preceeding discussions, an increased imbalance index can indicate a deteriorating trend or program level expansion made possible by favorable experience in preceeding time periods.

In order to examine the entire picture, the third, and so far missing component of the budget balancing act, needs examination; this factor is the beginning balance.

Cushioning the Expenditure-Revenue Imbalance

As discussed earlier, the beginning balance in basic terms is the money in the General Fund at the beginning of the year.

There are two **MAJOR** cautions to be applied to this statement.

(1) Portions of the beginning balance may be restricted in their expenditure. As a result beginning balance funds are not completely available to deal with revenue expenditure imbalances.

(2) The balances are not all held in cash. They may represent taxes or other accounts receivable which are not readily available.

To the extent that cities have available beginning balances, they can be used to cushion a current year mismatch between revenues and expenditures.

When the level of beginning balances are drawn down in this manner, their ability to provide the same relief in subsequent years is obviously reduced.

How well are general fund beginning balances of cities equipped to deal with revenue-expenditure imbalances? The following table shows the distribution:

TABLE II-20

	PERCENT OF CITIES WITH 1987 BEGINNING BALANCES OF FOLLOWING SIZES WHEN MEASURED AS PERCENT OF EXPENDITURES							
	Total	Worse Than -15%	-15% to -6%	-5% to -1%	0	1% to 5%	5% to 15%	Over 15%
Percent of Cities	100	1	0	1	3	12	33	51

As the table shows, virtually all cities have positive beginning balances, and a majority of cities have beginning 1987 balances exceeding fifteen percent of expenditures. Because cities have an uneven pattern of expenditures it is necessary to maintain balances of some size. A fifteen percent balance is the equivalent of about two months spending if spending is assumed to be equally spread over the course of a year.

When examined on regional and population size bases different patterns are exposed.

TABLE II-21

SIZE OF 1987 BEGINNING BALANCE AS PERCENT OF EXPENDITURES BY REGION

Region	Worse Than -15%	-15% to +15%	Better Than +15%
All Cities	1%	48%	51%
Northeast	0	85	15
Midwest	1	44	55
South	0	50	50
West	1	45	54

TABLE II-22

Population Class	Worse than 15%	-15 to + 15%	Over +15%
	Size of 1987 Beginning Balance As Percent of Expenditures by Population Size		
All Cities	**1**	**48**	**51**
Over 300,000	1	91	8
100,000 to 299,999	0	67	33
50,000 to 99,999	0	53	47
10,000 to 49,999	1	38	61
less than 10,000	1	36	63

A number of factors are worthy of note from this table. First, as mentioned previously, the majority of cities have positive balances. Second, a small number of cities have negative balances exceeding negative fifteen percent. Third, as city size decreases, the percentage of cities with balances over 15% increases.

The largest cities, those over 300,000, appear to run on the thinnest margins when measured on this percentage basis. Of course,the absolute magnitudes will be large.

The trend of balances exceeding fifteen percent, increasing as city size decreases, can only be applied with some confidence to municipalities over 1000 population. There were virtually no respondents in this Survey from the very small communities under 1,000 population which constitute the largest number of U.S. municipalities.

To what extent will cities be drawing down on these "fiscal shock absorbing" balances during fiscal 1987?

In order to examine this question, one can look at the relationship between the beginning general fund balance in 1987 and the projected ending balance for the same year.

TABLE II-23

CHANGES IN GENERAL FUND BALANCES DURING 1987

Category of Change	% of Cities Reporting	
Reducing balance by more than 50%	19	
Reducing balance by 25 to 50%	16	62% Reducing
Reducing balance by 1 to 25%	27	
Maintaining balance	18	18 Maintaining
Increasing balance by 1 to 20%	14	
Increasing balance by more than 20%	6	20 Increasing
		100%

The first fact that emerges from this table is that sixty-two percent of the cities expect to draw down their beginning balances during the course of 1987 in order to finance the demands of the general fund budget. Only twenty percent of the cities expect to augment their general fund balances during the course of the year.

This downward path, while manageable and even appropriate for a few years, is not a trend which can be perpetuated.

If actual results bear out these estimates the future ability and adaptability of municipal general funds will be correspondingly reduced.

CHAPTER III

BUDGETARY ADJUSTMENTS

Cities operate in a complex and changing environment and the budgets of cities must adapt quickly to these changes.

Among the factors which often influence city spending and operating decisions are the following:

- The tax or spending limits imposed by state laws or constitutions.
- Growth or decline in community population.
- Changes in the level of funding from state and federal sources.
- Changes in local tax and other revenue collections.
- Expenditures mandated (required) by federal or state law or by court decision.

The Survey asked respondents to choose which, of eleven specified adjustment actions, their city had taken during the last year. The respondents were also asked to indicate which, of four listed factors, were influential in causing these actions. Changing levels of federal and state funds were often cited, but reflective of the diversity of city experience was the large percentage of the cities reporting "other factors" (other than changed state and federal funding) as influencing them to take the various budget adjustment actions.

The accompanying table summarizes the responses to this series of questions.

TABLE III-1

BUDGET ADJUSTMENTS REPORTED BY CITIES

	Percent Reporting this action taken in Last Year*	Percent Taking Specified Action that the Following was an Influential Factor**			
		Loss of GRS	Loss of other Federal Funds	Change in State Funds	Other Factors
1. Tax Rates Increased	38	70	10	18	54
2. New Taxes Implemented	12	49	7	8	61
3. Level of Non-tax Revenues Increased	58	39	9	9	68
4. New Non-tax Revenues (e.g., user fees) Created	11	49	12	6	60
5. Rate of Growth in Operating Spending Reduced	55	71	19	19	46
6. Capital Spending Reduced	52	81	16	11	24
7. Number of City Employees Reduced	26	53	21	22	52
8. Municipal Hiring Frozen	26	54	14	17	58
9. Service Levels Reduced	8	66	21	34	59
10. Services Shared with Other Jurisdictions	14	15	7	11	75
11. Services Contracted Out	28	19	4	4	76

* Results based on 530 respondents.

** Totals will sum to more than 100% because of multiple influemtial factors affecting many of the decisions.

Fifty-eight percent of the respondents reported that the level of non-tax revenue in their community has been increased in the last year. This response would include actions such as adjustments in user fee schedules. The upward adjustment of existing fees and other non-tax revenues appears clearly preferred to the imposition of entirely new fees which was done by only eleven percent of the cities.

The second most prevalent action by reporting cities, was a reduction in the rate of growth of operating spending. Over half, (55 percent) of the cities report that this has taken place in the past year. It can be speculated that the uncertain economy, delayed and uncertain federal budget process, as well as uncertainties introduced by the many state legislative sessions have served to influence this course of action.

The third leading course of action also reported by over half the cities, (52 percent) was a reduction in the level of capital spending. It is interesting that both operating spending and capital spending have been selected as adjustment routes. In the Area of operating spending, the phrasing indicates a "reduction in the rate of growth" or a moderated increase, while in the area of capital spending, it indicates a "reduction"; absolute decline. The relative magnitudes of these two courses of adjustment, unfortunately, cannot be judged from the results of the survey.

The next most prevalent course of adjustment was an increased tax rate, 38 percent of the cities reported such an increase. Elsewhere, in the report changes in property tax, sales tax and income tax rates are discussed more completely, and the reader is referred there for a more complete explanation of the specific adjustments which have been made in these three major tax sources. Respondents could also select this response if increases had been made to some other tax in their community. A few examples of other taxes would include, hotel-motel taxes or real estate transfer taxes.

As in the previous case of user fees, the increase of rates in existing taxes clearly appears preferable or more possible for the city officials than the implementation of new taxes. Only twelve percent of the cities report the initiation of new taxes. Thus, the increase of existing taxes was selected more than three times as often as the imposition of a new tax.

Another avenue of budgetary retrenchment reported by more than one quarter of the respondents, was actions affecting the number of municipal personnel. Another section of this report is also devoted to a fuller discussion of the patterns of municipal workforce change. Twenty-six percent of the cities report that during the last year, they have reduced the number of municipal employees. Twenty-six percent of the responding cities also report that they have implemented some type of a municipal hiring freeze. The duration and scope of these hiring freezes was not gathered by the Survey.

Another group of budgetary changes which cities report could be termed alternative service delivery and include contracting out services, sharing services with another jurisdiction, or simply reducing levels of services (reducing hours of operation or frequency of services).

Over one quarter of the cities, (28 percent) report that they have contracted out at least some services during the past year. Carefully selected, supervised, and monitored contracting is a popular and much discussed trend among cities. The survey does not disclose the magnitude of the contracting, the service areas in which contracting was done, or the type of contract selected. Though only about half as popular as contracting, fourteen percent of the respondents report the similar action of sharing services with another government jurisdiction.

The least little used adjustment was a reduction of service levels; only eight percent of the cities report an explicit reduction in service levels. While many of the previously listed actions, for example, reductions in levels of operating and capital spending or reductions in the municipal workforce may result in pressures toward actual service reductions, only a small number of the responding officials report conscious decisions to reduce levels of service.

While the mix of these actions and their phasing will differ from city to city to city when the total survey is reviewed, there seems almost a hierarchy of budget adjustment steps.

- First, a review and upward adjustment of existing non-tax revenues, reductions in capital spending, and restraint in operating spending.
- Second, an increase in the rates of existing taxes.
- Third, use of contracting, hiring freezes, and layoffs.
- Fourth, implementation of new taxes or fees and the sharing of services with other jurisdictions.
- Fifth, an explicit choice to reduce service levels.

What Were the Factors Including These Decisions?

Respondents were given four broad categories to characterize as influential factors in their budget adjustment actions. The factors were:

- Loss of General Revenue Sharing
- Loss of Other Federal Funds
- Changed Level of State Funding
- Other Factors

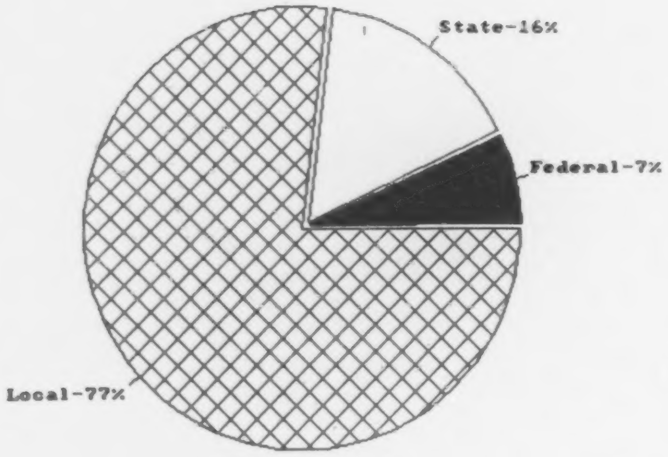
These factors, thus, breakdown into three areas federal funding, state funding and other primarily local factors.

To put the ensuing discussion in perspective, it is useful to see how important each of these three factors is to city revenues.

According to national data for the 1984-85 fiscal year, (the latest national data available) the following was the breakdown of city funding among federal, states and other (primarily local) sources.

FIGURE III-1

SOURCES of CITY REVENUE 1984-85



Of the federal money, general revenue sharing to cities was $2.5 billion or twenty-four percent. As part of the 1987 federal budget process, the Congress terminated the revenue sharing program with the last regular check mailed to cities at the end of September 1986. This, obviously, represents a significant proportion of federal funds for cities. An earlier NLC survey found that GRS was the only regular federal funding for seventy-three percent of the cities under 10,000 population.

State money is also a significant revenue source for cities contributing almost one-fifth of general city revenues in 1984-85. The level of state funding is more than twice that of federal funding and with the demise of general revenue sharing, will assume a greater relative importance.

The last group of influential factors was the large grouping of "other factors" which incorporates a whole variety of local conditions and influences.

If the responses are simply summed across all the questions, the following results emerge. The loss of GRS is mentioned as an influential factor in one of the decisions, forty-one percent of the time. "Other factors" are forty percent of the total, while state funding at ten percent, and other federal fund reductions at nine percent bring up the rear.

The Loss of GRS

The loss of GRS was cited by a large percentage of the respondents who took any of the listed actions. Even more significantly, it is an influential factor in those actions which were most often taken. Of those reporting lowered rates of growth in operating spending (fifty-five percent) -- seventy-one percent or almost three-fourth listed the loss of GRS as an influential factor. For those citing a reduction in capital spending (fifty-two percent) -- eighty-one percent listed GRS as an influential factor.

Seventy percent of those reporting tax rate increases (thiryt-eight percent did), credited GRS as being an influential factor.

Of those cities which implemented new taxes, created new charges or user fees (non-tax revenues), reduced city employees, implemented hiring freezes, or reduced service levels, forty-nine percent or more cited the loss of GRS as an influential factor.

Other Factors

"Other factors" were reported as influential factors in budget adjustments, almost as frequently as the loss of GRS. In fact, they were reported by a majority of the respondents taking nine of the eleven listed actions. **(see TABLE III-1)**

The other factors which the respondents described, show a great degree of variety. Among those items frequently cited are: adjustment of user fees or rate scheudles to more closely correspond with related costs, privatization or sharing of services for purposes of economy, community growth pressures, mandates, and sagging local economies.

Other factors were cited by seventy-six percent of the cities contracting out service and by seventy-five percent of those sharing services with other jurisdictions. Sixty-eight percent of the cities reporting an increase in the level of non-tax revenues cited "other factors" as being influential and sixty-one percent of those who implemented new taxes cited "other factors".

Changing Levels of State Funding

Changing levels of state funding was the third most cited influential factor by the cities. Thirty-four percent of the cities reporting a reduction of service levels cited this factor. Twenty-two percent of those reducing the number of city employees and nineteen percent of those reducing the rate of growth in operating spending, credited a change in the flow of dollars from the state capitol as being influential.

Changed state funding was also frequently cited as contributing to increased tax rates (18 percent) and municipal hiring freezes (seventeen percent).

The Loss of Other Federal Funds

The reduction of other federal funds (those other than general revenue sharing) was the factor least often cited as a reason for making any of the budget adjustments, but was mentioned by at least some of the respondents as contributing to all of the listed actions. **(See TABLE III-1)**

The loss of other federal funds was cited most often as a contributing factor to the slowing of operating spending (nineteen percent), the reduction of the municipal workforce (twenty-one percent), and the service level reductions (twenty-one percent). Reductions in capital spending were also attributed to losses of federal funds by sixteen percent of the cities who reported taking this action.

The cutbacks in federal grant funds have impacted on residents of cities. However, the functions, which were cut back previously like housing, community development, wastewater treatment, and transit, may often be handled by separate agencies, (housing authorities, economic development boards, or transit authorities) or state departments which are legal entities distinct from the city government.

Thus, the cutbacks in these functions were registered indirectly on cities through greater demands for assistance to the homeless, reduced transit services, or delays in meeting clean water standards. This can help explain the lower response to this question, particularly when it is remembered that for cities under

50,000 population, GRS was frequently the only direct, regular federal assistance received.

Tax Elections

One method, which cities use to make financial choices, is submission of an election issue to the voters. In some states there are requirements for voter approval to levy taxes or to increase the level of taxes. Even more frequently, state law or local charter provisions require that debt issuance and the taxes required to repay the debt must be approved by the electorate.

The surveyed cities were asked, "how many city measures involving taxes have been voted upon by the public in your city since January 1984?"

One-third of the cities reported that there had been at least one such measure submitted to the public. Overall, sixty-eight percent of the measures were approved and thirty-two percent defeated.

The frequency of putting such measures before the public varies as does the approval rate. The following table summarizes the results.

TABLE III-2

CITY TAX MEASURES
FREQUENCY AND SUCCESS RATE OF ELECTIONS*

Submitting The Following Number of Measures Since January 1984	Number of Cities	Total Measures Submitted	Measures Won	Measures Defeated	Success Rate
1	94	94	66	28	70
2	41	82	52	30	63
3	20	60	42	18	70
4	4	16	10	6	63
5	1	5	5	0	100
6	2	12	9	3	75
7	1	7	4	3	57
8	2	16	8	8	50
9	2	18	17	1	94
10	1	10	10	0	100
12	1	12	8	4	67
13	1	13	8	5	62
22	1	22	11	11	50
	171	367	250	117	68%

***Table based on 530 respondents.**

One conclusion that can be drawn from this data is the relative infrequency, at least for these cities, of submitting tax measures for a vote. Only one-third of the respondents report any measures, and of those who did, the average number submitted was less than one per year.

There appears to be no particular pattern of electoral success based on the number of measures submitted. It is particularly hard to generalize on this question, since only a small number of the cities have submitted more than three tax measures to the electorate over this time period.

Of the cities submitting only one tax measure during this three-year period, over seventy percent were successful. Of those cities submitting two measures, forty-nine percent won both measures. Twenty-nine percent of these "two-measure" cities broke even, winning one and losing one, while twenty-two percent saw none of their proposals approved.

Twenty cities reported having three tax measures before the public. Of these cities, forty-five percent won all their measures, twenty-five percent batted .666, winning two of three, twenty-five percent won one measure, and one city lost all three measures submitted.

The survey did not ask for a description of the type or size of measures submitted. As a result, a further analysis of the types and kinds of measures is not possible based on the data gathered in this survey.

CHAPTER IV

THE LOSS OF GRS

General revenue sharing funds were distributed to cities and other units of local government and could be used for virtually any legal local expenditure.

As part of the 1987 federal budget process, this program was terminated. The last regular check was mailed in September 1986.

Because of the variation in local fiscal years, the impact on city cash flow varies from city to city. The following table shows the percentage of GRS which would be received by a city for the fiscal year ending in 1987.

TABLE IV-1

PERCENT OF GRS RECEIVED FOR CITIES WITH FISCAL YEAR ENDING IN DIFFERENT MONTHS

Month Fiscal Year Ends	Percentage of Cities Reporting this Fiscal Year	Percent of GRS Received in 1987 Budget
April	3	75
June	47	50
July	2	25
September	16	-0-
December	29	-0-
Other	3	NA
	100	

Note: This table assumes the use of cash revenue accounting and ignores the percentage cuts made to GRS in Fiscal Year 1986.

Thus, half of the cities in this survey are receiving half or more of their revenue sharing during the 1987 fiscal year. The 1988 fiscal year is when the reduction will fully impact these jurisdictions.

The respondents were asked to "indicate how significantly the loss of GRS (General Revenue Sharing) will affect each of the following city spending areas by circling one number on each scale." The scale went from one "no impact", to ten, "significant impact". Respondents were also given an opportunity to indicate that the particular service was not offered by their city.

The area which emerged as the one with the heaviest impact was capital outlay. Forty-four percent of the respondents said that the loss of GRS would "significantly impact" (ranked eighth, nineth or tenth) capital spending in their city. The average score on this item was 6.0.

A number of the cities indicated difficulty in specifying the functional areas impacted since they considered general revenue sharing to be general revenue. They, thus, characterized the impact of the loss of GRS as being "across the board". Over one-fifth of the cities said that there would be a significant impact on public safety (Police & Fire) twenty-two percent and public works and park operation eighteen percent.

The results for all service areas are summarized on the accompanying table.

TABLE IV-2

THE LOSS OF GRS: WHAT AREAS WILL BE AFFECTED*

Service Area	Percent of Cities in Which Service is Provided by City	The Impact of the Loss of GRS (In Percentages)** No or low Impact (1, 2 or 3)	Moderate Impact (4, 5, 6 or 7)	Significant Impact (8, 9 or 10)
Capital Outlay	97	29	27	44
Public Safety	97	44	34	22
Public Works and Parks Operations	96	43	39	18
Recreation and Libraries	88	52	37	11
Debt Repayment	86	86	9	5
Pensions	79	91	7	2
Social & Health Services to Aged	57	59	26	15
Social & Health Service to Youth	55	63	26	11
Social and Health Services to Poor	49	63	25	12
Education	32	83	12	5
Other	14	59	12	29

* Table based on 530 responses

**The impact percentages in each row sum to one hundred percent; the actual number of respondents can be gauged by looking at the percentage of the respondents who report providing the service. For example, the twenty-two percent reporting a significant impact on public safety (a service which ninety-seven percent of the cities provide) represents a greater number than the twenty-nine percent reporting a significant impact for "other", since only fourteen percent of the respondents provided this service compared to ninety-seven percent on public safety.

Will State Government Take Action To Cushion the Loss of GRS to Cities?

Cities are created pursuant to state laws and regulations, thus many would consider it a state government responsibility to assist cities to cope with the loss of federal aid and other fiscal problems. The capacity of state governments to respond is limited by the financial circumstances in which they find themselves.

According to the March 1987 "Fiscal Survey of the States" conducted by the National Governors Association and National Association of State Budget Officers, twenty-three states were forced to cut their already enacted 1987 budgets to avert pending deficits.

What do the cities in this survey report their states are doing?

There are further signs of state fiscal difficulty. According to the same survey, total state year-end general fuel balances are equal to 2.6% of expenditures. The comparable 1987 figure is estimated to be only 0.8% of expenditures. This becomes even more worrisome when it is realized that over sixty percent of the aggregate balance is held by two states, California and New Jersey. If these two states are removed from the calculation, the 1987 figure is 0.4%. The state budget environment does not appear hospitable for the enactment of municipal financial assistance.

- Sixty-five percent of the cities report that their state is providing the same level of assistance as in the past, no increase.

- Nineteen percent of the cities report that their states is actually providing a lower level of assistance.

- Not a single city reports that regulations or restrictions imposed on cities have been reduced.

- Six percent of the cities report that their state government has authorized cities to impose new taxes but only with the approval of local voters.

- Six percent of the cities report that their state government has authorized cities to impose new taxes without requiring approval of the local voters.

- Only three percent of the cities report that their state is making more revenue available to help replace GRS.

Cities in only a few states report that their state is stepping in to replace the loss of GRS. Many state legislatures are still in session as this report is written so a few additional states may act to provide increased fiscal assistance.

Information developed as a result of the survey indicates that the following states have taken steps to cushion the blow to cities resulting from the loss of GRS.

TABLE IV-3

PERCENTAGE OF CITIES LOCATED WITH ACTUAL OR POTENTIAL GRS REPLACEMENT PROGRAMS

PERCENT OF TOTAL U.S. MUNICIPAL

State	Jurisdictions	Population	Expenditures	Size of Program as Percent of GRS
State with enacted Programs				
Connecticut	0.2	0.9	1.3	66
Idaho	1.0	0.4	0.2	--
Massachusetts	0.2	1.9	3.3	--
North Carolina	2.5	1.8	1.6	—
Subtotal - (Enacted)	3.9%	5.0%	6.4%	NA
States with pending programs				
Delaware	0.3	0.0	0.2	70
Illinois	6.7	6.8	4.0	50
Total enacted and Pending	10.9%	11.9%	10.6%	NA

At least two lessons can be drawn from this information. First, the cities potentially covered by these programs (if both the pending programs listed are enacted) will affect only about eleven percent of U.S. cities, whether measured on a jurisdiction, population, or expenditure basis.

Second, there are large variations in the programs as illustrated by the following brief summary of each of the programs.

Connecticut: A program was enacted by the state legislature, which will convert an infrastructure trust fund into a program of general aid for municipalities. The funds will be distributed on a needs based formula which includes per capita income, population, and property tax effort.

Delaware: Delaware has a proposed replacement program authored by Governor Michael Castle and passed by one chamber of the legislature. At the time this report is written, final passage was anticipated.

The funds would be distributed on the same formula used for GRS. The program is proposed at a figure of eight million dollars which would thus replace about seventy percent of the GRS loss to Delware cities and other general purpose local governments.

The proposal is only included in the proposed budget for one year so continuation is not guaranteed.

Idaho: In 1984 the state legislature enacted a city county revenue sharing program providing cities and counties with 6.2 percent of the total funds collected by the statewide four cent sales tax. In 1986, in response to state budgetary problems, a "temporary" increase in the sales tax rate to five percent was enacted, but cities and counties did not share in the increased revenue.

In 1987 the state enacted legislation making five percent sales tax permanent, allowing localities to share in the increased collections and raising the share dedicated to the city county revenue sharing program to 7.75 percent. These changes result in roughly a fifty percent increase in the funding of this revenue sharing program.

The funds are distributed half on the basis of assessed value and half on the basis of population.

Massachusetts: The Massachusetts legislature has taken an existing state revenue sharing program, doubled its size, and modified the distribution formula. Under the legislation, the program size is increased from $60 to $130 million.

The money will be distributed based upon a complex twenty-five factor formula. Under the program some communities may see up to a ninety percent replacement of GRS funds, while others will only receive thirty percent.

North Carolina: In 1986 North Carolina made an additional half cent local option sales tax available at the discretion of counties. All but a few of North Carolina's counties elected to levy this tax. The distribution of the tax receipts are based on assessed valuation and population.

North Carolina now has a four tier sales tax system totaling five cents.

Illinois: The Governor has proposed a package of tax increases with a portion of the funds to be shared with local governments. This package may produce revenue for city governments.

- An income tax increase of one-half of one percent of which cities and counties receive one-twelfth. This is distributed on a per capita basis which would produce approximately four dollars per capita for cities.

- A gas tax increase of five cents per gallon of which local governments would receive about thirty-five percent. This would also yield about four dollars per capita. This would increase the state gas tax in Illinois from thirteen cents to eighteen cents.

For comparison, GRS provided an average of about fifteen dollars per capita, for residents of Illinois Municipalities (Chicago received about twenty-one dollars per capita) additional amounts were also paid to counties and townships. This proposal has not been adopted as this paper is being written. This is part of a larger effort to raise state revenue and happens to include these two revenue sources in which Illinois municipalities have traditionally shared.

CHAPTER V

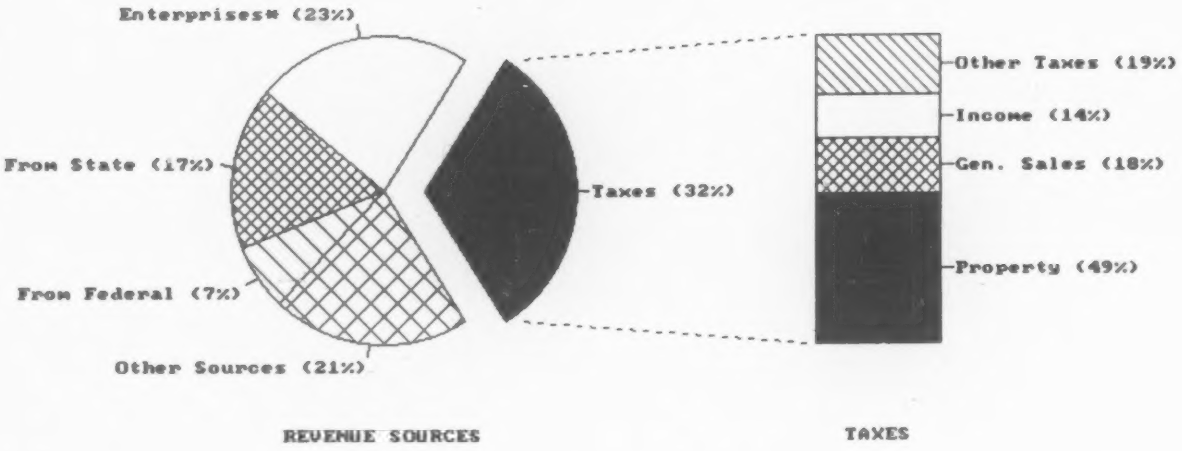
MAJOR CITY TAXES--"THE BIG THREE"

Municipal governments had revenues of $147.7 billion dollars in Fiscal year 1984-85.

This revenue was composed as shown in the following graph:

FIGURE V-1

CITY GOVERNMENT REVENUE
FISCAL YEAR 1984-85



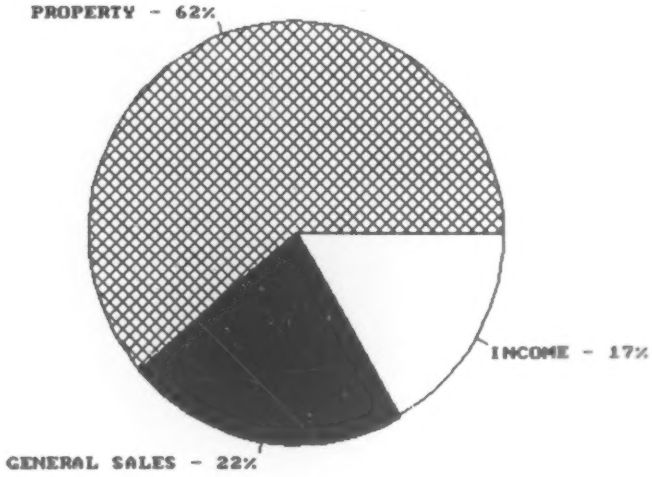
*Includes utilities, liquor sales, retirement
Source: "Governmental Finances in 1984-85",
U.S. Census (Dec. 1985) Table 29

As the graph shows, taxes were thirty-two percent of municipal government revenues; the property, sales, and income taxes were the biggest individual sources of this tax revenue.

When only these "big three taxes are examined, the following distribution is produced.

FIGURE V-2

CITY TAX COLLECTIONS from "BIG THREE TAXES"
PROPERTY, SALES, and INCOME - FISCAL 1985



U.S. CENSUS BUREAU

As a share of the "big three taxes", the property tax has declined from seventy-two percent of the total to sixty-one percent while the relative shares of the income and sales tax have grown, not only because of increases in income and spending but also because greater numbers of jurisdictions are now using these latter two taxes.

The survey asked the respondents for a three year history of the rates of these taxes and the revenues collected. The cities were also asked about their authority to levy these taxes and the existence of state limits on the rates of these taxes.

Consistent with the preceeding discussion, the property tax is the most widely reported tax used by the responding cities.

Ninety-five percent of the cities report the receipt of property taxes as the highest of any of the "big three taxes". Seventy-seven percent of the cities report that their state places a limit on the rate of the property tax for operating purposes. Of the cities who report a state ceiling on operating property tax rate and also report 1987 property tax collections, forty-three percent report that they are at the maximum rate permitted.

The sales tax is the next most frequently used tax by the responding cities. Fifty-five percent of the cities report sales tax collections in fiscal 1987. Sixty-six percent of these cities report that their state places a cap or ceiling on the rate of the city sales tax. Of the cities who report a state limit on the city sales tax and also report 1987 sales tax receipts of eighty percent, report that they are at maximum sales tax rate permitted by their state.

Only twelve percent of the cities report income tax collections during the 1987 fiscal year. Twenty-eight percent of these cities report an income tax cap imposed by state law. Of the cities which report 1987 income tax collections and a state cap on the city income tax, ninety-three percent report that they are levying the maximum allowable rate.

These major taxes are used both singly and in combination. Fifty-nine percent of the responding cities use two or more of these major taxes, and forty-one percent use only one such tax.

41% of the cities use only one of the "big three taxes":

only the property tax	36%
only the sales tax	5%
only the income tax	less than .5%
Total	41%

56% of the cities use two of the "big three taxes":

property and sales	47%
property and income	9%
sales and income	none reported
Total	51%

3% of the cities use three of the "big three taxes":

property, sales and income	3%

PROPERTY TAX

The property tax is the most widely used tax by U.S. municipalities and is also the single largest tax source. The property tax consists of three elements: (1) the property tax rate, (2) the assessed value or base against which the rate is applied, and (3) the property tax levy, which is equal to the rate multiplied by the assessed value.

"Have property taxes been raised?" This question can be interpreted in a variety of ways.

If the question means: Has the amount of the levy gone up? A variety of circumstances can yield this result.

(1) the rate went up, while assessed taxable values increased, held constant, or declined (but not by a large enough percentage to offset the rate increase)

(2) the rate remained constant, while assessed values increased.

(3) the rate declined, but assessed values increased sufficiently to cause the levy to increase.

To get at these issues, this survey asked respondents to provide a three year history of four items related to property taxes.

1. The city government imposed property tax rate on a single family residential property.
2. The total tax rate imposed on a single family residential property. This would include the city imposed rate as well as any additional property taxes imposed by other overlapping tax jurisdictions such as county, school, and other special districts.
3. The taxable assessed valuation of all property in the city.
4. The property taxes collected by the city.

Using these measures, one can examine most of the major elements of the city property tax equation.

There are, however, some other factors to property taxation which this survey does not examine.

1. Changes in the assessment ratio. Many local laws require that property be assessed or valued at one hundred percent of true market value for purposes of property taxation. However, it is also common for assessed value to be established at some other level: for example, twenty-five percent, thirty percent, seven percent, or some other figure.

2. The effect of property reappraisals. Regardless of the ratio selected, the actual level of property assessment is dependent on the frequency and quality of tax assessment practices. For example, if property values are only adjusted every four years, there will be lags and jumps in the assessed value of the community.

3. The survey did not inquire about the classification of assessment rolls. Under a system of classification, real property is divided into classes. For example: single family residential, multifamily residential, commercial, and industrial. Once this classification is arrived at, one or both of the following steps may be taken: 1) The ratio of "true" to "taxable" value may differ from class to class. For example, single family residential property may be valued at twenty-five percent, while industrial property might be valued at one hundred percent. 2) The

nominal tax rates may differ from class to class. For example, residential property might have a tax rate of ten dollars per thousand dollars of taxable value, while industrial property might have a tax rate of twenty-five dollars per thousand dollars of taxable value.

4. A fourth area, not investigated by the survey, was the existence of various exemptions or property tax relief programs. These programs some of which are linked to state income taxes provide for various amounts of exemptions, credits, or other relief from property taxes.

5. The existence of split roll or land value taxation systems was also not a subject of this inquiry. Under this type of system the land portion of the assessment is taxed much more heavily than the improvements on the land. This type of real property taxation has been advocated by some as encouraging the optimal development of land.

In order to fully understand the impact of property taxes on a jurisdiction and its citizens, all these factors are important. Nevertheless, this survey still provides a useful snapshot of municipal property taxation.

While property tax collections are influenced by collection time schedules and delinquencies, they are driven by the relationship between taxable value and tax rate. Based on the relationship between these two factors, the property tax levy and ultimately property tax collections can go up or down.

For 1987, the following matrix displays the various relationships that cities in this survey report.

TABLE V-1

1987 RELATIONSHIP BETWEEN PROPERTY TAX RATE AND PROPERTY TAX COLLECTIONS

	Property Tax Collections			
City Property Tax Rate	Decrease	Held Constant	Increase	Total
Decrease	7%	*	15%	22%
Held Constant	6%	4%	28%	38%
Increase	2%	1%	37%	40%
Total	15%	5%	80%	100%

* less than 1/2 of one percent.

This chart provides a number of pieces of information. Reading down the far right hand column shows that twenty-two percent of the cities decreased their property tax rate, thirty-eight percent held the rate constant, and forty percent of the cities decreased the rate of tax.

Reading across the bottom row shows that fifteen percent of the cities expect to see their property tax collections decline during 1987. Five percent expect their property tax collections to be constant and eighty percent expect to see their property tax collections increase.

A. Cities Expecting 1987 Property Tax Collection Decline

Each of the rows and columns in this basic chart also yield additional perspective. Of cities experiencing property tax collection declines, forty-seven percent (7/15) of those projecting property tax collection declines also decreased their city tax rate. Forty percent of these cities (6/15) expect to see their property tax collections decline.

Thirteen percent (2/15) expect to increase their city property tax rate and still experience a decline in property tax collections.

Cities who place themselves in these latter two categories may be seeing actual declines in taxable value or be projecting an increase in delayed or delinquent payment.

B. Cities Expecting No Change in 1987 Property Tax Collections

Eighty percent of the cities expecting property tax collections to be constant are also holding their property tax rate constant. By inference the taxable property in these communities is also constant. The remaining twenty percent of these cities have been required to increase their property tax rate just to hold property tax collections level.

C. Cities Expecting An Increase in Property Tax Collections

Forty-six percent of these cities are increasing their tax rates and expect to see an increase in property tax collections as a result. Thirty five percent of these cities are holding their tax rates constant but expect to see an increase in property tax collections. By inference, it can be supposed that these cities are experiencing an increase in assessed value or some other factor which will accelerate the payment of property taxes. The remaining nineteen percent of these cities are seeing decreased property tax rates and still project an increase in property tax collections.

With this basic context, we can now proceed to examine the changes in property tax collections, city imposed property tax rate, and property tax collections.

TABLE V-2

PERCENTAGE OF CITIES WITH THE FOLLOWING CHANGES IN PROPERTY TAX ELEMENTS

City Property Tax Rate	1985 to 1986	1986 to 1987
Decline more than 5%	17%	10%
Decline 1-5%	11	11
No change	38	40
Increase 1-5%	14	16
Increase more than 5%	20	23
	100%	100%

Assessed Property Value	1985 to 1986	1986 to 1987
Decline more than 5%	2%	3%
Decline 1-5%	8	7
No change	6	6
Increase 1-5%	34	43
Increase more than 5%	50	41
	100%	100%

Property Tax Collections	1985 to 1986	1986 to 1987
Decline more than 5%	6%	5%
Decline 1-5%	6	8
No change	5	6
Increase 1-5%	28	29
Increase more than 5%	55	52
	100%	100%

A number of facts emerge from these three tables:

1. Of the three elements, city property tax rates are the most stable. Roughly forty percent of the communities indicate no change in this

item. One reason is the large number of communities who reported earlier that they are at the state imposed limit for property taxes.

2. The patterns of change, at least when aggregated in these large categories, have remained relatively consistent between the two years.

3. More than half the communities expect their property tax collection to increase by more than five percent. At least one caution must be applied to this fact, some portion of these increases may be required to service previously issued debt or other commitments. The portion of this money which will flow to the general operating budget is not available from the survey data.

4. Almost one fifth (19%) of these property tax communities expect to see their property tax collection exactly the same or actually decline during 1987.

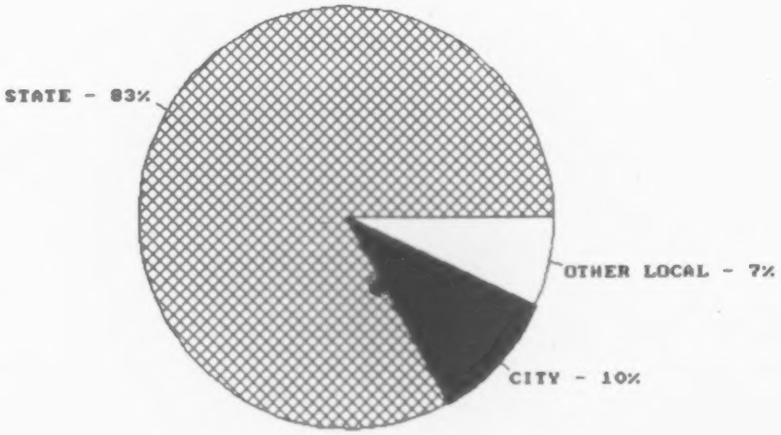
Sales Taxes

General sales taxes are the second most frequently used tax among the "big three taxes" by U.S. cities. According to 1985 statistics, it was used by 5,445 municipalities or approximately thirty percent of all municipalities and produced $8.5 billion dollars for municipal treasuries. It was utilized by cities in twenty-two states.

The following graph shows the relative collection of this tax by the state, city, and other local governments. The federal government currently levies no general sales tax. It does, however, levy a number of selective sales (excise) taxes, such as those on gasoline and liquor. These selective sales taxes are also extensively used by state governments and often shared with cities.

FIGURE V-3

GENERAL SALES TAX COLLECTIONS
by LEVEL of GOVERNMENT
FISCAL YEAR 1985



source:U.S. CENSUS BUREAU

When compared to property taxes, there is much less adjustment of city sales tax rates during the course of a year. This is a natural result of at least two factors.

First, a large percentage of the cities report that they are already at the maximum city sales tax rate allowed by state law, thus no increases would be possible. In some states such as Texas and California, the city sales tax is an "all or nothing at all" proposition either levy the tax at a rate of one percent with state administration or levy nothing. There is no option to go to a lower or higher rate. These two states, by themselves, contain eight percent of all municipal governments and twenty-one percent of all municipal population.

Second, the sales tax rate is inherently more cumbersome to adjust than the property tax rate. First, because there are a great many merchants who must be informed. Second, because sales tax administration is not focused on annual adjustments like property tax administration. Third, because the fine tuning of sales tax rates is difficult: less frequent but larger adjustments, such as one to two cents, are less cumbersome than a series of smaller rate changes which are expressed in millions of a dollar.

The following table, based on the survey responses, demonstrates this infrequent adjustment pattern.

TABLE V-3

PERCENTAGE OF CITIES MAKING SALES TAX RATE CHANGES

Type of Change	1985 to 1986	1986 to 1987
Decrease rate	1%	0%
No change	91	94
Increase Rate	8	6
	100%	100%

Of the increases, which were made in the first period (1985 to 1986), almost half occurred in North Carolina where there was a special change in state, enabling legislation. Likewise, in the second period half of the changes again occurred in North Carolina for the same reason.

When one moves to examine the changes experienced in sales tax collections, there is a much greater variety in the patterns of change.

TABLE V-4

PERCENTAGE OF CITIES REPORTING CHANGES IN SALES TAX COLLECTIONS BY CATEGORY OF CHANGE

Category of Change	1985 to 1986	1986 to 1987
decrease over 5%	10%	8%
decrease 1-5%	14	12
no change	4	8
increase 1-5%	26	36
increase over 5%	46	36
	100%	100%

Over one quarter of the cities (28%) in both time periods report that their sales tax collections are absolutely flat or declining.

Seventy-two percent of the cities in both time periods report an increase in collections, but there is a noticeable "down shifting". More cities report slow sales tax growth in the one to five percent category. Less cities report sales tax growth in the high growth category exceeding five percent.

The survey did not ask for information on the base of the sales tax; the amount of retail sales. It is interesting to review the federal statistics on retail sales.

TABLE V-5

ANNUAL PERCENT CHANGE IN U.S. RETAIL SALES

Year	% Change	Year	% Change
1975	8.7	1981	8.5
1976	11.8	1982	3.0
1977	10.3	1983	9.5
1978	11.2	1984	10.1
1979	11.4	1985	6.3
1980	6.7		

Source: U.S. Bureau of The Census

These figures can be compared with a community's sales tax collections to see how closely they resemble the national pattern. Changes in sales tax rates or coverage of the tax as well as state laws, which "cap" sales taxes on individual transactions or exclusions from the tax base, will account for some of the variation.

City Income Taxes

The income tax is the least used of the "big three taxes" by U.S. municipalities. According to 1985 statistics, it is only used by about eight percent of all American cities.

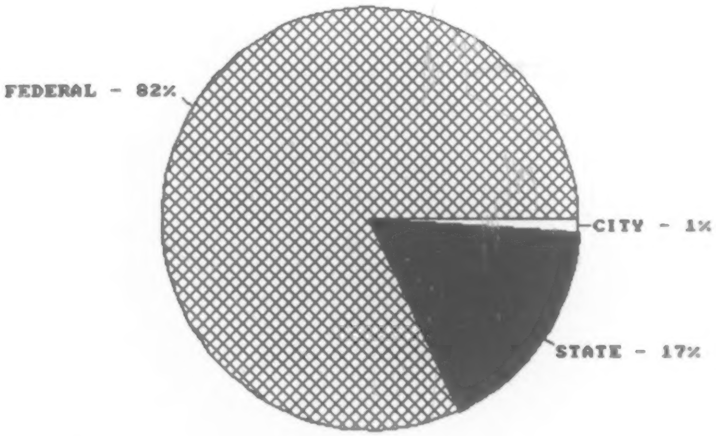
Ninety-eight percent of all of the 1,585 U.S. cities that use this tax are located in three states; Ohio, Pennsylvania, and Kentucky.

Outside of usage in these states, income taxes are usually collected in only the largest cities within each state. In 1983-84, $5.9 billion in municipal income taxes were collected in New York City. New York City's collection alone, represented forty-six percent of total municipal income tax collections in this year. New York City, plus the next nine cities in population size who utilize this tax, collected seventy-nine percent of the total.

These statistics demonstrate that this tax is used in a limited number of states and a few cities collect the majority of the revenue from it.

The following graph shows the relative amounts of the income tax as levied by federal government, state governments, cities, and others.

INCOME TAX COLLECTIONS by LEVEL of GOVERNMENT
FISCAL 1985



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Generally, city income taxes are flat (single rate) taxes levied on earned income only and lacking the variety of credits, exemptions, exclusions, and deductions common to the federal and state tax codes. New York City and Washington, D.C. are exceptions to this generalization; their structures are more analogous to state income tax systems.

As with the sales tax, there is a low frequency of changes to municipal income tax rates. Of the fifty-three cities who reported their income tax rates, only four (8%) indicated that a rate change was made from 1985 to 1986. Out of fifty-five cities, only six, (11%) reported income tax rate changes between 1986 and 1987. The survey did not explicitly inquire about tax base changes which serve as another way to increase income tax receipts.

The changes in income tax collections exhibit greater variation.

TABLE V-6

PERCENTAGE OF CITIES REPORTING CHANGE IN INCOME TAX COLLECTIONS

Category of Change	1985 to 1986	1986 to 1987
Decline more than 5%	7%	5%
Decline 1-5%	10	11
No change	3	3
Increase 1-5%	36	40
Increase exceeding 5%	44	41
	100%	100%

While over forty percent of the cities expect to see increased income tax collections exceeding five percent, roughly twenty percent of the cities expect their income tax collections to be absolutely flat or even decline.

CHAPTER VI

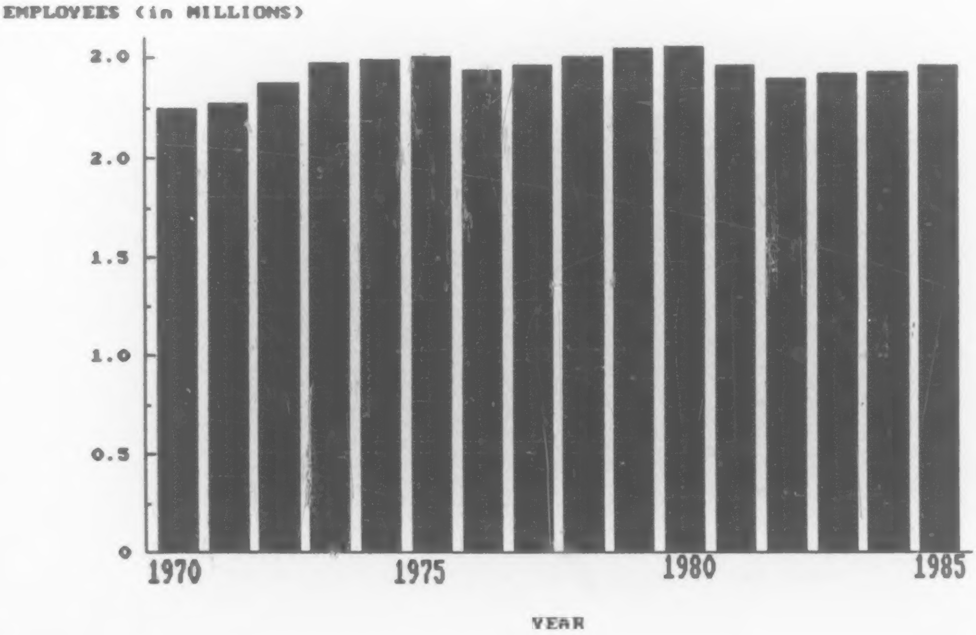
CITY PERSONNEL

One of the largest elements of city government programs is the employment of personnel. While there have been moves by some city governments to contract out or "privatize" services, the level of city employment and changes in municipal employment are indicators of a city government's ability to provide services.

The cities were asked to provide a three-year history of municipal employment. Before reviewing the survey responses, it is useful to review the recent history of municipal employment as documented by the U.S. Census.

FIGURE VI-1

TOTAL MUNICIPAL EMPLOYMENT 1970 - 1985



U.S. CENSUS BUREAU, "City Employment in 1985"
1983"

As the previous graph shows, there was a fairly steady rise in the total number of individuals employed by municipal governments until 1980, when a three-year decline began. According to these statistics, total city employment is still below the level which existed in 1973.

Changes in employment have varied by city size. For example, while overall city employment, from 1980 through 1985, was down four percent, the fifty cities over 300,000 population actually saw a two percent increase. Those cities between 50,000 and 300,000 population saw a twelve percent decline, while cities under 50,000 saw a four percent decrease.

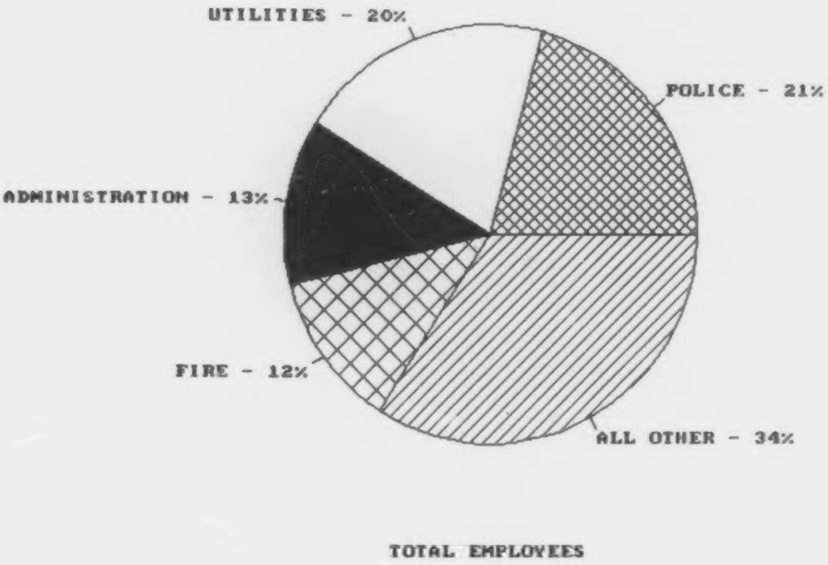
There is also significant variation among cities of the same population class; while San Antonio showed a twenty-three percent increase in city workforce over this period, the city of Detroit's employment decreased ten percent. There are a number of factors which account for these variations, including differing population growth and annexation patterns, as well as differing mixes of full and part-time employees. The ratio of employees to population also varies. While San Antonio's municipal employee growth rate far outdistanced Detroit's decline, Detroit's ratio of city employees per 1,000 residents still stands twenty-four percent higher than San Antonio's (18.7 employees per thousand in Detroit, compared to 15.1 employees per thousand in San Antonio).

The mix of municipal employees also differs by city size class. Overall, while only about 250 out of the United States' 19,000 municipalities (1.3 percent) operate school systems, education employment is almost fifteen percent of total municipal employment and is second only to police at seventeen percent. A similar pattern, small number of larger jurisdiction providing the service, also exists in the operation of municipal hospitals. It is, thus, more instructive to look at the mix of municipal employment by removing education and hospital operation so the figures are more comparable. The figures which follow are all reported after this adjustment.

The accompanying graph shows the mix of municipal employment when these two adjustments are made. Police employment leads the way, twenty-one percent of all municipal employees are police employees, followed closely by the combined category of sanitation, sewerage, and municipal utility systems at twenty percent, general administration (including finance) checks in at thirteen percent, followed by fire protection at twelve percent.

FIGURE VI-2

TOTAL MUNICIPAL EMPLOYMENT by FUNCTION 1985
(excludes hospital and education employees)



U.S. CENSUS BUREAU, "PUBLIC EMPLOYMENT in 1985"

On a population size basis, the largest cities (those over 300,000 population) have essentially the same number of employees (non-education and hospital) as all cities under 50,000.

TABLE VI-1

TOTAL MUNICIPAL EMPLOYMENT BY CITY SIZE

City Population Size	October 1985 Total Employees	Percent of Total
300,000 and over	814,523	39
50,000 to 299,999	462,949	22
under 50,000	825,196	39
	2,102,668	100

When the mix of municipal employment is evaluated on a population size basis, the following pattern emerges:

TABLE VI-2

PERCENTAGE COMPOSITION OF MUNICIPAL WORKFORCES BY POPULATION SIZE OF CITY

	In Cities over 300,000	In Cities from 50,000 to 299,999	In Cities Under 50,000
Fire	8	14	15
Administration	8	10	18
All Other	38	30	20
Police	19	22	21
Transportation	6	7	8
Utilities	21	17	18
	100%	100%	100%

Fire department employment is a much higher proportion of the municipal workforce in cities under 300,000, which reflects the greater diversity of functions in the larger communities.

Administration becomes a progressively, larger proportion of the city workforce as the population declines. This may reflect the more centralized support functions in smaller cities, while in larger communities, administrative functions are carried out at a department level with administrative positions being reported in the functional categories.

The "all other" category decreases in size as the city size decreases, and this fits the generally expected pattern of greater variety of services offered in the larger cities. The other areas exhibit a fairly consistent share of employment, regardless of city size, when divided into these major categories.

What Did The Survey Find?

This survey, while it cannot claim the comprehensiveness of the Census data, can offer some clues to the changes in municipal employment since October 1985, the latest Census data that is available and which was the basis of the preceeding discussion.

Cities were asked one basic personnel question which was a three-year history of municipal employment. The three years specified were the city's fiscal year ending in 1985, fiscal year ending in 1986, and the fiscal year which will end in 1987.

TABLE VI-3

MUNICIPAL PERSONNEL CHANGE
PERCENTAGE OF CITIES REPORTING CHANGES

	1985 to 1986	1986 to 1987
Decrease	27%	28%
Held Constant	19	25
Increase	54	47
	100%	100%

The first finding, that emerges in both time periods, is that over one fourth of the cities are reducing the number of personnel.

Roughly one half of the cities are just holding constant or reducing levels of employment.

At the same time, about one half of the cities are making some additions to the municipal work force.

A slight slowdown between the two periods is also evident as slightly greater percentages of cities are now holding their municipal employment steady or reducing it than in the earlier (1985 to 1986) time period.

If one allows for a five percent variation in employment levels the same pattern is demonstrated.

TABLE VI-4

MUNICIPAL EMPLOYMENT PERCENT OF CITIES REPORTING CHANGES

Change in City Employment	1985 to 1986	1986 to 1987
Decline more than 5%	5%	7%
Between -5% and +5%	80	82
Increase more than 5%	15	11
	100%	100%

Slightly fewer jurisdictions are making reductions or occupying the middle range. At the same time, fewer cities are increasing employment rolls over five percent.

When regional and size classification are added to the analysis the following distributions are revealed.

TABLE VI-5

PERCENT OF CITIES IN EACH REGION REPORTING DECLINES IN MUNICIPAL EMPLOYMENT

	1985 to 1986	1986 to 1987
Total	**27%**	**28%**
Northeast	44	41
Midwest	28	29
South	29	29
West	23	20

Just as the total figures for the two years are consistent, so too are the regional figures. The number of cities in the Northeast reducing employment appears substantially higher than in the other regions, but in view of the small sample from this area it must be interpreted with great caution. At the same time, communities in the West seem somewhat less prone to reduce employment than the other regions.

On a population size basis again, there is a high degree of consistency between the two time periods. The exception to this statement is among the largest communities where almost twice as many are reporting personnel reductions.

TABLE VI-6

PERCENT OF CITIES REDUCING EMPLOYMENT WITHIN EACH POPULATION CLASS

Population Size	1985 to 1986	1986 to 1987
Total	**27%**	**28%**
over 300,000	17	30
100,000 to 300,000	23	25
50,000 to 99,999	25	29
10,000 to 49,999	30	28
less than 10,000	31	26

While there is a small number of cities over 300,000, they employ roughly forty percent of all municipal employees; so this change could be a significant influence on overall municipal employment. When cities that are increasing municipal employment, are examined other patterns are exposed.

When examined on a regional basis, one first sees relative consistency between the two periods with an overall thirteen percent decline in the percentage of cities adding employees. There is a slowdown in all regions.

TABLE VI-7

PERCENTAGE OF CITIES IN EACH REGION REPORTING INCREASED CITY EMPLOYMENT

	1985 to 1986	1986 to 1987
Total	**54%**	**47%**
Northeast	31	28
Midwest	44	39
South	57	52
West	64	58

The table also shows a regional pattern which is consistent in both time periods. The West has the greatest percentage of cities adding employees followed closely by the South. The Midwest and Northeast trail in this pattern.

When examined on a population size basis there are significantly fewer cities above 100,000 population that are currently adding employees. The only size classification in which there is an increased percentage adding employees is in the 10,000 to 50,000 size class.

TABLE VI-8

PERCENTAGE OF CITIES IN EACH POPULATION SIZE CLASS REPORTING INCREASED CITY EMPLOYMENT

Population Size	1985 to 1986	1986 to 1987
Total	**54%**	**47%**
over 300,000	72	54
100,000 to 300,000	67	52
50,000 to 99,999	69	55
10,000 to 49,999	46	48
less than 10,000	44	35

The preceeding figures illustrate the continuing conservative trend in municipal hiring continues after a small upsurge in the 1985 to 1986 period.

The one quarter reduction in federal funding to cities, caused by the termination of revenue sharing, as well as the pressures added by personnel mandates imposed by the federal and state governments, will exert pressure to restrain any potential growth in the municipal work force.

CHAPTER VII

TAX REFORM

The federal income tax reform act enacted in 1986 was one of the most sweeping revisions of U.S. tax law in history. Though many may assume that state and local governments are tax exempt organizations and, therefore, unconcerned with tax reform; in fact, they are very directly impacted by this law. The individuals who completed the survey form were asked to indicate how important it would be to modify seven changes made by this law.

The city officials completing this survey were financial or budget officials of the cities responding. their view is not an officially, adopted city position, but it does represent the view of a group of city officials who deal directly with municipal borrowing and financial programs.

The respondents were asked "the importance of making each of the following changes, if you were able to amend the law" by ranking each group on a scale from one to ten, with ten being "very important to change". The respondents were asked to make these choices for seven changes: restoring the deductibility of state and local sales taxes and six questions related to municipal bonds.

I. Deductibility of State and Local Sales Taxes

Since the enactment of the federal income tax, it has been possible to deduct most state and local tax payments from income when computing federal income tax liability. In 1985, the IRS reported that thirty-two percent of all itemized deductions were taken based on state and local tax payments.

The percentage of returns showing a deduction for state and local tax payments varies from state to state. According to 1982 IRS data, over forty percent of the returns filed in Colorado, Delaware, Maryland, Michigan, Minnesota, New York, and Utah had itemized deductions for state and local tax payments. On the other hand, less than twenty percent of the returns filed in Maine, South Dakota, and West Viriginia utilized this deduction.

On 1981 income tax returns, state and local tax payments were thirty-one percent of all itemized tax deductions taken. Income taxes were forty-nine percent of the total, property taxes were thirty-two percent, and general sales taxes thirteen percent. (The remainder were motor vehicle, personal property, and miscellaneous taxes.)

The 1986 federal tax reform law eliminated the ability to deduct state and local sales taxes while preserving the continued ability to deduct property and income taxes.

The dependence on the sales tax shows a wide geographic disparity. As part of the state and local "big three taxes" (property, general sales and individual income taxes), general sales taxes represented thirty-one percent in 1982-83. The highest degree of dependence was in Louisiana and New Mexico at seventy-six percent. At the same time no governments in Delaware, Montana, New Hampshire, or Oregon used the tax at all.

Looking at the same figures on the local level only, the average dependence was thirteen percent. Louisiana local governments led the way at seventy-nine percent, while local governments in twenty-four states made no use of the general sales tax.

Examining only the share of city tax revenue from sales taxes and using 1984-85 data, the differences continue to be dramatic. Seventy-eight percent of city tax revenue in Oklahoma came from the sales tax followed closely by cities in Colorado (sixty-one percent), Arizona (fifty-five percent), New Mexico (fifty-four percent), and Louisiana (fifty-three percent). Cities in twenty-eight states did not levy a sales tax.

The pattern also varies for individual cities. Using 1983-84 Census data for cities over 100,000 in population, the following ranges are observed. One quarter of these cities made no use of the general sales tax, but in some cities the sales tax contributed three quarters of local tax revenue: Tucson, Arizona (seventy-two percent), Colorado Springs, Colorado (seventy-six percent), Lakewood, Colorado (seventy-three percent), and Tulsa, Oklahoma (seventy-eight percent).

Even in a single state there is variation. Using the same data, of the twenty-eight California cities in this size class (over 100,000), the degree of dependence varies from thirteen percent in the city/county of San Francisco to fifty-two percent in the city of Bakersfield.

NLC's current policy supports the deductibility of local taxes, specifically.

> **The provisions of the federal income tax code that allow taxpayers to deduct their state and local tax obligations from their federal taxable income is a fundamental statement of the historical right of state and local governments to raise revenues and of individuals not to be double taxed.**
>
> **It enhances the ability of state and local governments to raise revenues, promotes equity in the federal taxing system, discourages the migration of businesses and individuals for tax purposes, increases national productivity by avoiding**

> **excessive cumulative federal/state/local income tax rates, and enhances the autonomy of state and local governments.**
>
> **For these reasons, the National League of Cities opposes the elimination or reduction in value of the deductibility provisions of the Federal income tax code.**

When asked on the survey the importance of restoring the ability to deduct state and local sales taxes, forty-three percent of the respondents said it was "very important" (ranked it eight, nine or ten on a ten-point scale). The average score of this item was 6.3, indicating this provision of the tax law was moderately important to change.

As can be expected from the geographical variation in the use of the sales tax and also in the itemization of sales tax deductions, the response is not uniform across types of cities or regions.

On a regional basis the average scores were as follows:

	Average Score	Number Responding
Midwest	6.6	170
South	6.5	177
West	6.0	129
Northeast	5.3	29

The scores are reasonably close except in the Northeast, this can perhaps be explained by the low number of respondents from this region and the even lower scores from the respondents from the New England states who represent half of those responding from the Northeast.

On a Census division basis, the average score ranged from a high of 7.3 to a low of 4.9. The West South Central division (Texas, Oklahoma, Arkansas and Louisiana) gave this change the highest priority with an average score of 7.3. These four states all have state and local tax systems which are above the national average in their dependence on sales taxes. In 1982-83, the average dependence nationally was thirty-one percent. In Louisiana the comparable figure was seventy-six percent, in Texas fifty percent, in Oklahoma forty-one percent and in Arkansas thirty-eight percent.

At the low end were the New England states giving the restoration of sales tax deductibility an average score of 4.9. All of these states, except Connecticut, have sales tax dependencies well below the national average and New Hampshire has no general sales tax at the state or local level.

The remaining divisions of the country cluster between scores of 5.7 to 6.8.

On a population size basis there is no uniform relation to size. The highest average score is from cities of 10,000 to 50,000 (6.5) and the lowest (6.0) from the smallest communities, those under 10,000.

Metropolitan status appears to make no difference with the scores of central cities, suburbs, and rural municipalities tightly bunched with scores from 6.3 to 6.4.

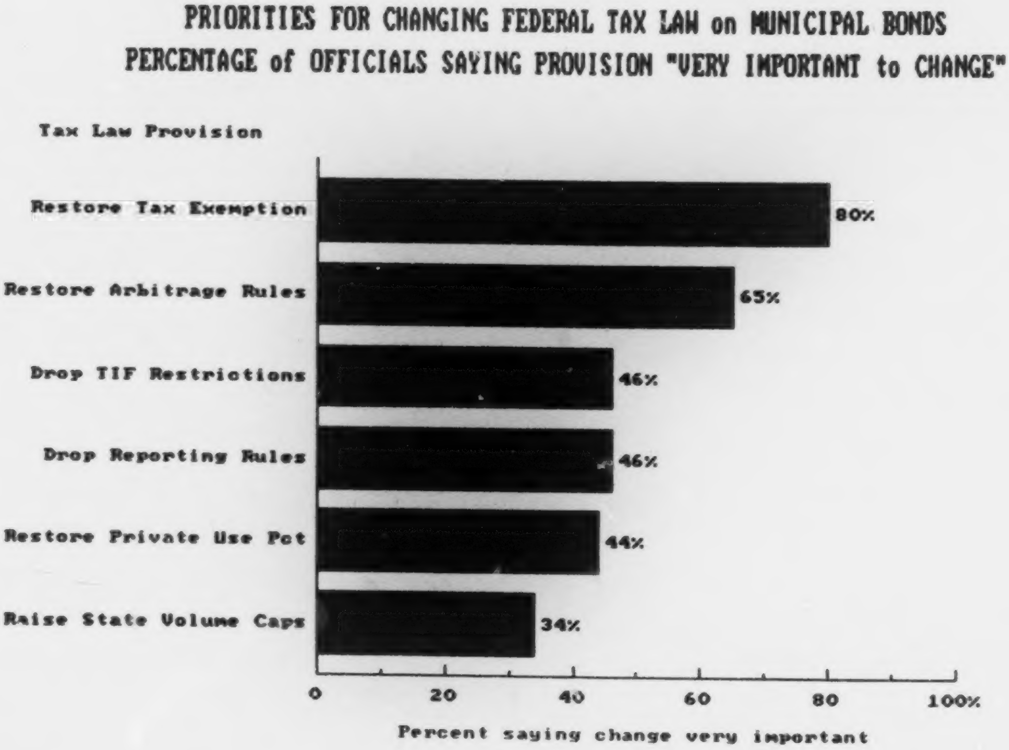
During the tax reform debate, it was hypothesized that the greatest pressures on this tax would be felt in border areas where there are (1) significant variations in sales rates tax, (2) where localities have the discretion to set their own sales tax rates, and (3) where sales tax rates are relatively high.

The jury is still out on this question, and it will take some time before the true impact of this change can be ascertained. Things to watch for would be shifts away from the sales tax, greater uniformity in rates within a trading area, and higher levels of attempted sales tax evasion.

II. Municipal Bond Provisions

The new tax law made a series of very significant changes to the law, regarding tax exempt bonds. The respondents were asked to comment on six of the changes.

FIGURE VII-1



The survey results on each of these items are first summarized, and each bond law provision will then be described more fully with the survey results on each item more completely analyzed.

- The first objective for change in the municipal bond provisions by the respondents was to "again make interest on municipal bonds completely tax exempt by removing municipal bond interest from any computation of tax liability."

  Eighty percent of the respondents ranked this provision of the tax law as "very important" to change (ranked it eight, nine or ten on a ten-point scale). the average score on this item was 8.7 on a ten-point scale.

- "Restoration of the arbitrage limitations of the old law" was top ranked by sixty-five percent of the respondents, and the average score on this item was 7.8 on the ten-point scale.

- "Deleting the requirement to report all municipal borrowing to the Federal government" and "removing new restrictions on tax increment finance bonds" finished in a tie with forty-six percent of the respondents saying these changes were very important. Both items also received average scores of 6.7.

- "Restoring the percentage of private use permitted from the proceeds of a municipal bond from ten percent to twenty-five percent" was ranked very important to change by forty-four percent of the respondents and received an average score of 6.6.

- "Raising the state volume caps for private purpose bonds" was rated very important to change by thirty-four percent of the respondents and received an average score of 6.0.

A. Making Municipal Bonds Interest Tax Exempt

Since the original federal tax law was passed, the interest paid on the indebtedness of municipal government has been exempt from federal government taxation. This provision is defended for its role in lowering the interest rate paid by municipal governments and avoiding the undue interference of the federal government in the local financing process.

Investors in the past could count on a municipal bond being tax exempt once it was issued regardless of the specific details of the borrowing.

The new tax law has deserted this simple predictable approach by creating a caste system for municipal securities, as well as the possibility that a tax exempt bond may become retroactively taxable and can be tax exempt for one investor but not for another.

The following two charts summarize the different types of municipal bond issues and their tax exempt status, as well as events which can result in retroactive taxability.

TABLE VII-1

THE CASTE SYSTEM OF MUNICIPAL BONDS AFTER THE 1986 TAX REFORM LAW

Type of Bond	Always Tax Exempt	Taxable If Issued Outside Volume Cap	Potentially Subject to Personal Alt. Minimum Tax	Potentially Subject to Corporate Minimum Tax
Municipal Bonds issued prior to August 7, 1986	X			X
Municipal Bonds for governmental purposes issued on or after August 7, 1986				X
Private Activity Bonds issued after August 7, 1986		X	X	X
Private Activity portion of governmental bond which exceeds $15 million and was issued after August 7, 1987		X	X	X

TABLE VII-2

ACTIONS WHICH MAY RESULT IN RETROACTIVE PENALTY ON A MUNICIPAL BOND

Action	Potential Penalty	Opportunity to Cure Problem Before Penalty
Report all debt issuances to U.S. Treasury	Bond would be considered taxable from date of issuance	Not Specified
Sale of bond without volume cap allocation	Bond would be considered taxable from date of issuance	Not Specified
Failure to report and rebate arbitrage earnings	Make bond taxable back to date of issuance	If failure due to reasonable cause and not willful neglect-penalty of fifty percent of amount due plus interest
If small issuer sold bonds under arbitrage exemption and then issues additional debt pushing issuer over $5 million annual limit	Make bond potentially taxable if required rebates not made on all borrowing during the year	Same as above provision
If small issuer sells bonds under the $10 million exemption and then does borrowing placing it over the limit	Banks would lose ability to deduct interest costs of carrying such bonds	Not Specified

These two developments: the caste system of bonds and the possibility of retroactive taxability cast uncertainty on the municipal bond market and, thus, put upward pressure on interest rates. Investors don't like to put money into uncertainty, particularly if they don't receive a premium rate of return for assuming this higher level of risk.

How do the city financial and budget officers see this issue? The desire to reintroduce some certainty in the tax exemption of municipal bond interest was the highest rated issue by the responding officials.

Eighty percent of the officials ranked this as "very important to change" (scored the item eight, nine, or ten on the ten-point scale); the average score on this item was 8.7, which also puts it firmly in the "important to change" area of the scale.

There is essentially no spread in the pattern of responses. Regionally, the average scores range from 8.6 in the West to 8.9 in the Northeast. When the geographic view is taken of the smaller divisions, the range is a little greater, but still quite tight with the Mountain region respondents ranking it 8.5 (the lowest score) and those in the Mid-atlantic 9.0.

On a population basis, the smallest cities rank this item 8.5, the lowest, and the cities between 100,000-300,000 rank it the highest at 9.2.

On a city-type basis, suburban cities rank it lowest at 8.6, and central cities rank it highest at 8.9.

In summary, there is a high degree of agreement on this item across the group of surveyed officials, and this item is their highest priority for change.

The specialization of the municipal bond market, forced by the law, changes with attendant higher marketing costs; and the large potential for lawsuits, when a bond becomes retroactively taxable, are obviously developments that these city finance officials do not relish.

Arbitrage

Arbitrage is the term that applies to the gain on a transaction which is due to the price differential existing between two markets.

In the field of municipal finance, it refers to the selling of tax exempt securities (bonds, notes, etc.) with a lower interest rate (due to their tax exempt interest) and then investing the proceeds in securities whose higher interest rates are set by a taxable market. In other words, without any regulation a city could borrow in the tax exempt market, but invest the funds in a taxable market, thus receiving the higher interest rate paid on the taxable instruments without any tax liability.

For example, in 1980 the average yield on a ten-year U.S. Treasury Security was 11.46 percent, while a high grade municipal bond was going for 8.51 percent. If a municipality borrowed $1 million, it would pay an annual interest cost of $85,100, but it could immediately turn around and invest the money and receive an annual amount of $114,600. Thus, it could pay its interest expense from its interest earnings and take out "arbitrage" or profit of $29,500. This arbitrage could be used to reduce the required size of the borrowing or to increase the size of the project financed.

Even under the old tax law things weren't quite that simple, since 1969 there had been some federal restrictions on the amount of arbitrage which could be earned.

Basically, under the former law for long-term bonds, the type issued for municipal construction projects, a city had three years to earn unlimited arbitrage profits. A second provision of the old law was that arbitrage limits were based on good faith expectations when the borrowing was done. The issuer issued an anti-arbitrage certificate saying that it was aware of arbitrage rules and did not contemplate arbitrage earnings.

The new tax law significantly tightened the provisions concerning arbitrage. Under the new law, a municipality is responsible for continuously computing the interest earned on bond proceeds and reserve funds. Basically, a city must keep track of yields to document that the yield earned on investments made with bond proceeds and debt service funds does not exceed the amount which would be earned if these amounts were invested at the yield rate of the tax exempt security which was issued. Cities are not permitted to earn a higher rate than they pay to borrow. Once every five years any earnings in excess of this rate must be paid, "rebated", to the Federal Treasury.

Governments that issue less than five million dollars of debt per year are exempted from many of the arbitrage regulations.

While the Treasury Department has not yet issued regulations on this subject, special computer software programs are being developed, and private firms are being formed to carry out the calculations which will be required by this provision of the law. The potential price is high for failing to properly calculate and timely rebate any arbitrage -- the bonds may be made retroactively taxable back to the original date of issuance.

The respondents are clearly concerned about this provision of the law; sixty-five percent rank these provisions as "very important to change". The average score given this item is 7.8 (on a ten-point scale) which indicates a strong desire for change.

The scores on this item are fairly uniform on a regional basis. Two interesting patterns emerge when the average scores are examined by city size and city type.

When looked at on a city size basis, there is a smooth progression in the average score as city size increases.

TABLE VII-3

AVERAGE SCORE SUPPORTING CHANGE IN ARBITRAGE RESTRICTIONS ON MUNICIPAL DEBT

Population Size Class	Average Score
300,000 and over	8.8
100,000 to 299,999	8.6
50,000 to 99,999	8.5
10,000 to 49,999	7.5
Less than 10,000	6.8

This may reflect the small issuer exemption built into the law and the greater compliance complexity for the larger jurisdictions with multiple bond issues outstanding.

The same smooth progression is observed when the scores are examined by type of city. Central cities are most anxious for change with an average score of 8.5, suburban cities rank this item 7.8, and non-metro communities, place this item at a score of 7.2.

Reporting Requirements

The new tax law creates the new requirement that all tax exempt debt issuance be reported to the federal treasury. Previously, only private activity bonds were required to be reported.

Regulations and reporting forms to implement these reporting requirements have been developed by the U.S. Treasury.

Three types of reports are required to be filed on municipal borrowing depending on its character and size.

I. For Municipal Bonds Classed as Governmental

A. For each bond issue over $100,000, a report must be filed with the U.S. Treasury. The report is required forty-five days after the close of the calendar quarter in which the borrowing occurs (the 15th day of the second month following the close of the calendar quarter in which the borrowing occurs). Treasury form 8038 G is the form on which the filing must be made.

B. For each bond issue of less than $100,000 annual filings by February 15 must be made. These reports would detail all such issues sold during the previous calendar year. Treasury form GC is the form on which these filings must be made.

II. For Municipal Bond Classified as Private Activity Bonds

For each bond issue of so called private activity bonds, a report to the U.S. Treasury shall be filed within forty-five days after the close of the calendar quarter in which the issuance occurred. Treasury form 8038 must be used for this report.

A copy of the 8038 G form is included in the Appendix of this report.

In addition to these reporting requirements on municipal governments, for the first time, beginning with tax returns filed for 1987, all individuals will be required to report the amount of tax exempt interest which they have received. It can be predicted that this information will frequently be used in future tax revision debates.

Forty-six percent of the responding officials that these reporting requirements are "very important" to change. The average score given this item is 6.7.

There appears to be little pattern, geographic or city size variation, in average scores. Officials in the East South Central states of Kentucky, Tennessee, Mississippi, and Alabama appear the most anxious to have this reporting requirement dropped and give it an average score of 7.6. On a size basis, the largest communities (those 300,000 and over) give this item the lowest score of 5.9.

On the basis of city type, all the scores hover right around the overall average score of 6.7.

Restoration of Private Use Test

The former tax law basically defined a bond as tax exempt, if not more than twenty-five percent of the proceeds were to be used in the trade or business of a private party.

The new tax law changes this basic test, subject to a number of exceptions and further conditions, from a twenty-five percent to a ten percent standard.

For example, if a town commits ten percent or more of the space at a bond financed community center building to a day care center, whether for profit or nonprofit, the bonds could be classified as private activity bonds and, thus, lose their tax exemption.

Likewise, if a city, anxious to encourage revitalized retail activity downtown, makes a long term agreement to reserve ten percent of the spaces in a bond financed parking structure for employees or customers of a business or set of businesses, the bonds could be classified as private activity bonds.

Clearly, these new provisions will alter the movement toward public private partnerships.

Forty-four percent of the respondents report that restoring the former standard of twenty-five percent is "very important". The average score on this item is 6.7.

There is only limited variation in the responses to this item on a geographic basis. The cities over 100,000 population seem most desirous to have the old rules restored, their scores average 7.4, while cities under 100,000 give this item average scores of 6.5.

On a city type basis, central cities rank the item 7.3, suburban communities 6.5, and non-metro cities 6.3.

Tax Increment Finance Bonds

Tax increment financing, also called redevelopment financing or tax allocation financing, is a financing tool which is authorized by state statute in at least thirty-three states. ("What is TIF?", Sam Casella, Planning Advisory Service, Rpt No. 389, American Planning Association). It is typically used to finance the physical rehabilitation of an area.

The basic process works as follows:

1. A geographic area is legally defined and boundaries are developed. Often there must be a finding of "blight" in the area. This area is the redevelopment district.

2. The assessed value of the property within the redevelopment district at the time of initial designation is determined. This assessed value is the "frozen" or "base" value.

3. A redevelopment program is adopted usually involving land assembly, building demolition, land resale and intensive new development accompanied by the installation of public infrastructure and amenities.

4. Bonds are issued to finance the publicly assumed costs of the redevelopment. The security for the bonds is the increased tax revenue which will be generated by the tax rate levied against the increased assessed value produced by the project. This is the "incremental tax revenue". While the tax revenues derived from the frozen base go to all taxing jurisdictions, the tax produced by the incremental value is generally reserved solely for the repayment of the bonds issued to finance the improvements.

5. Once the bonds are repaid, the incremental value is released to the general tax rolls where it will result in added general revenue or reduced tax rates.

The new tax law places a number of restrictions on this type of financing. Chief among these restrictions are the following:

- The definition of these bonds as "private purpose" instruments as opposed to public or government purpose bonds.

- Forcing the amount of these bonds to be counted against the state quota or "volume cap" established by the law.

- Imposing a series of limitations on such projects based upon the amount of geographic area and assessed valuation which may be incorporated within a redevelopment area.

- Defining permissible uses for the bond proceeds limiting the percentage of bond proceeds which may assist certain types of business, and completely forbidding assistance to others.

Forty-six percent of the respondents say that this requirement is very important to change (eight, nine or ten on the point scale). The average score on this item is 6.8.

On a geographic basis the lowest average score (3.7) on this item is given by respondents from the **mid-atlantic** states in which this financing mechanism is not authorized by state law.

On the other hand, the highest average score is 7.6 in the **Pacific Coast States**, where there is wide use of this financing technique. For example, in California seventy-two percent of the respondents say that these restrictions are very important to change, and the average ranking of this item by these California respondents is 8.1, 19 percent higher than the overall group ranking.

Raise Volume Caps

The new tax law establishes a smaller and more comprehensive quota system for private purpose bonds. Under this system, each state government is responsible for setting up a method of allocating the limited amount of private activity bond issuing authority which is assigned to each state.

The quotas commonly termed "volume caps" are equal to seventy-five dollars per state resident or two hundred and fifty million dollars for each state, whichever figure is greater. This limitation is in effect for 1987. From 1988 onward the cap is lowered to fifty dollars per resident or one hundred and fifty million dollars, whichever is greater.

Bonds, which must receive a volume cap allocation in order to be tax exempt, are most private activity bonds, including exempt facility bonds, qualified mortgage bonds, small issue industrial development bonds, qualified student loan bonds, and qualified redevelopment bonds. If there is private use of a governmental bond which exceeds fifteen million dollars, then this excess must also receive a volume allocation.

One-third of the responding officials (thirty-four percent) said it was "very important to raise the volume caps. The average score given this item is 6.0.

The cities over 100,000 population give this item a score of 6.6 while those under 100,000 score this item as 5.9.

APPENDICES

CITIES THAT RESPONDED TO 1987 FISCAL CONDITIONS SURVEY

ALABAMA

Birmingham
Dothan
Fairfield
Fayette
Foley
Jasper
Midfield
Montgomery
Moulton
Tuscaloosa
Uniontown

ALASKA

Anchorage
Valdez

ARIZONA

El Mirage
Flagstaff
Glendale
Mesa
Paradise Valley
Peoria
Phoenix
Scottsdale
Show Low
Sierra Vista
Springerville
Tempe
Yuma

ARKANSAS

Fort Smith
Little Rock
Mulberry
Pine Bluff

CALIFORNIA

Anaheim
Arcadia
Arcata
Bakersfield
Bellflower
Beverly Hills
Burbank
Cathedral City
Chula Vista
Claremont
Concord
Cupertino
Downey
Fairfield
Fontana
Fresno
Garden Grove
Hayward
Indio
Irvine
La Mesa
Lakewood
Lodi
Lomita
Los Alamitos
Los Angeles
Martinez
Menlo Park
Montclair
Mountain View
Newport Beach
Palm Desert
Palmdale
Palo Alto
Pomona
Port Hueneme
Redondo Beach
Redwood City
Richmond
Sacramento
Salinas
San Buenaventura
San Diego
San Francisco
San Gabriel
San Jose
San Mateo
San Pablo
Santa Ana
Santa Barbara
Santa Fe Springs
Santa Paula
Signal Hill
Sunnyvale
Vallejo
Visalia
West Convina

COLORADO

Arvada
Brighton
Colorado Springs
Delta
Denver
Englewood
Estes Park
Fort Collins
Glendale
Grand Junction
Greeley
La Junta
Lakewood
Northglenn
Westminster
Wheat Ridge

CONNECTICUT

Bristol
East Hartford
Hamden
Manchester
Norwalk
Torrington
Waterbury
West Hartford

DISTRICT OF COLUMBIA

Washington, D.C.

DELAWARE

Dover
Newark
Smyrna
Wilmington

FLORIDA

Atlantic Beach
Boca Raton
Bradenton
Clearwater
Coral Gables
Davie
Daytona Beach
Delray Beach
Dunedin
Fort Lauderdale
Hollywood
Homestead
Jacksonville
Jacksonville Beach
Largo
Melbourne
Naples

FLORIDA

- Okeechobee
- Oldsmar
- Orlando
- Ormond Beach
- Palm Bay
- Palm Beach
- Pembroke Pines
- Pensacola
- Sanibel
- Sarasota
- St. Petersburg
- Sweetwater
- Tampa
- Winter Springs

GEORGIA

- Atlanta
- Augusta
- Byron
- Catersville
- College Park
- Decatur
- Hapeville
- Marietta
- Moultrie
- Savannah
- Summerville
- Thomson
- Waycross

HAWAII

- Honolulu

IDAHO

- Boise City
- Pocatello

ILLINOIS

- Arlington Heights
- Bellwood
- Bolingbrook
- Buffalo Grove
- Carbondale
- Chicago
- Countryside
- Decatur
- Des Plaines
- Downers Grove
- Evanston
- Evergreen Park
- Farmer City
- Glencoe
- Hazel Crest
- Lake Forest
- Mount Prospect
- Oak Park
- Paris
- Peoria
- Rock Island
- Springfield
- Streamwood
- Westmont
- Winnetka
- Normal
- Norridge

INDIANA

- Beech Grove
- Elkhart
- Evansville
- Fort Wayne
- Huntington
- Indianapolis
- Kendallville
- Kokomo
- Nappanee
- South Bend

IOWA

- Burlington
- Cedar Falls
- Cedar Rapids
- Davenport
- Des Moines
- Dubuque
- Indianola
- Iowa City
- Keokuk
- Le Mars
- Orange City
- Ottumwa
- Sioux Center
- Sioux City
- Urbandale

KANSAS

- Beloit
- Dodge City
- Hillsboro
- Kansas City
- Liberal
- Merriam
- Olathe
- Ottawa
- Overland Park
- Pittsburg
- Prairie Village
- Topeka
- Wichita

KENTUCKY

- Burkesville
- Covington
- Florence
- Franklin
- Lebanon
- Murray
- Newport
- Owensboro
- Williamstown

LOUISIANA

- Abbeville
- Estherwood
- Franklin
- Houma
- Kenner
- Lafayette
- Mandeville
- New Orleans
- Port Allen
- Shreveport
- Thibodaux
- White Castle

MAINE

- Portland

MARYLAND

- Baltimore City
- Brunswick
- Cheverly
- Greenbelt
- Ocean city
- Rockville

MASSACHUSETTS

- Arlington
- Boston
- Cambridge

MASSACHUSETTS

Springfield

MICHIGAN

Adrian
Berkley
Detroit
Farmington Hills
Gladwin
Grand Rapids
Grosse Pointe Woods
Highland Park
Hudson
Huntington Woods
Inkster
Kalamazoo
Lincoln Park
Madison Heights
Muskegon Heights
Norton Shores
Pontiac
Romulus
Roseville
Royal Oak
St. Clair Shores
Sterling Heights
Wayne
Wyoming

MINNESOTA

Austin
Brooklyn Park
Champlin
Columbia Heights
Crystal
Duluth
International Falls
Minneapolis
Minnetonka
Moorhead
North Mankato
Northfield
Owatonna
Red Wing
Rochester
Roseville
South St. Paul
St. Cloud
Willmar

MISSISSIPPI

Grenada
Gulfport
Hattiesburg
Jackson
Laurel
Meridian
Morton
Natchez

MISSOURI

Berkeley
Bridgeton
Columbia
Crestwood
Hazelwood
Kansas City
Kirksville
Lees Summit
Maplewood
North Kansas City
Olivette
Richmond Heights
Springfield
St. Louis
St. Peters
University City
Warrensburg

MONTANA

Bozeman
Butte-Silver Bow
Cutbank
Great Falls
Missoula

NEBRASKA

Beatrice
Bellevue
Imperial
Kearney
Lincoln
Norfolk
North Platte
Scottsbluff
West Point
York

NEVADA

Caliente
Henderson
Las Vegas

NEW HAMPSHIRE

Portsmouth
Salem

NEW JERSEY

Trenton

NEW MEXICO

Albuquerque
Artesia
Gallup
Las Cruces
Los Alamos
Los Lunas

NEW YORK

Dunkirk
New York
Port Jervis
Poughkeepsie
Rochester
Scarsdale
White Plains

NORTH CAROLINA

Asheboro
Burlington
Canton
Charlotte
Fairmont
Gastonia
Goldsboro
Graysburg
Greensboro
Henderson
Hickory
High Point
Jacksonville
Madison
Mocksville
Raleigh
Reidsville
Rockingham
Valdese
Whiteville
Winston-Salem

NORTH DAKOTA

Dickinson
Grafton
Grand Forks
Harvey

OHIO

Athens
Akron
Bedford
Brooklyn
Carey
Cincinnati
Cleveland
Cleveland Heights
Columbus
Dublin
Euclid
Garfield Heights
Grove City
Kettering
Lakewood
Lyndhurst
Maple Heights
Newark
Oberlin
Parma
South Euclid
Springfield
Trotwood
University Heights
Wickliffe
Wooster

OKLAHOMA

Duncan
Grove
Guymon
McAlester
Moore
Ponca City
Shawnee
The Village

OREGON

Beaverton
Cottage Grove
Dallas
Eugene
Gresham
Hermiston
Lake Oswego
Milwaukie
Portland
Springfield

PENNSYLVANIA

Allentown
Bethlehem
Harrisburg
Penn Hill
Philadelphia
Pittsburgh
Reading

RHODE ISLAND

Warwick

SOUTH CAROLINA

Aiken
Anderson
Georgetown
Lancaster
Manning
North Myrtle Beach
Rock Hill
Tega Cay
West Columbia

SOUTH DAKOTA

Brookings
Pierre
Sioux Falls
Spearfish
Watertown

TENNESSEE

Clarksville
Etowah
Fayetteville
Germantown
Lawrenceburg
Manchester
Memphis
Morristown
Oak Ridge
Paris
Pulaski
Red Bank

TEXAS

Beaumont
Bellaire
Cleburne
Copperas Cove
Dallas
Deer Park
Denton
Eagle Pass
Edinburg
Everman
Garland
Grapevine
Greenville
Houston
Lake Jackson
La Porte
Lubbock
Mesquite
Midland
Odessa
Pampa
Port Arthur
Richardson
Robstown
Saginaw
San Antonio
Spearman
Stephenville
Tyler
Vernon
Waco
Wharton
Wichita Falls

UTAH

Ogden
Salt Lake City
So. Salt Lake City

VIRGINIA

Alexandria
Charlottesville
Chase City
Chesapeake
Hampton
Newport News
Petersburg
Richmond
Roanoke
Suffolk

WASHINGTON

Auburn
Bellevue
Bremerton
Edmonds
Everett
Kelso
Lynnwood
Mountlake Terrace
Oak Harbor
Redmond
Seattle
Spokane
Tacoma
Vancouver
Yakima

WEST VIRGINIA

Charleston
Huntington
Nitro
Philippi
Vienna

WISCONSIN

Beloit
Buffalo City
Green Bay
Greenfield
Madison
Milwaukee
Watertown
Wauwatosa
West Allis

WYOMING

Cody
Douglas
Evanston
Gillette
Green River
Riverton
Sheridan

Treasury issues new forms for tax-exempt filing

by Frank Shafroth

The U.S. Treasury last week issued new forms to implement the new tax law's requirement that municipalities file reports with the IRS for all tax-exempt borrowing (See The Weekly, Jan. 26).

The form municipalities must file Form 8038-G, for traditional public purpose borrowing in excess of $100,000 is printed to the right with the instructions printed below. This form may be cut out and/or xeroxed by municipalities and used to comply with the new federal filing requirements.

This will mandate a significant new reporting burden on municipalities since it will apparently cover every municipal transaction involving borrowing, including bank loans, leases, overnight loans, in addition to traditional general obligation and revenue bonds. Failure to file the appropriate information report would make any tax exempt financing taxable.

The new regulations will require cities and towns to file one of three kinds of new forms or information returns for any bonds issued after December 31, 1986. The Treasury has requested municipal issuers to file information reports only on the new forms.

The 1984 tax law required reports to be filed for industrial development bonds, the new law extends the reporting requirement to all tax exempt borrowing.

The new forms which cities and towns will be mandated to file are:

§ Form 8038 is the information return for so-called private activity bonds. This form, as revised, must be filed by April 15 for private activity bonds issued in the 1st calendar quarter of 1987, and on the 15 day of the second month after the close of each succeeding quarter.

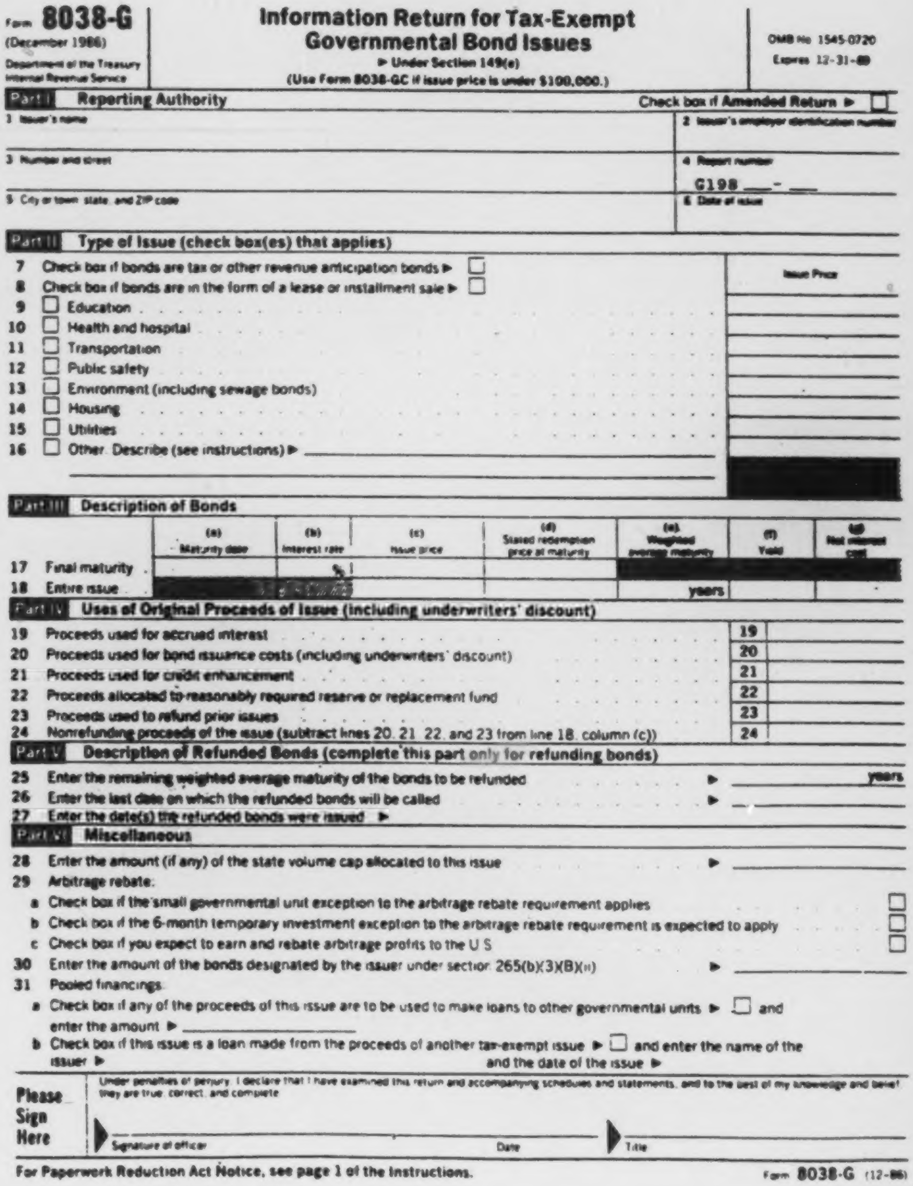
Cities and towns should use the old information return for private activity bonds issued in the 4th calendar quarter of 1986. The deadline is February 15, 1987, but the new form for any private activity bonds issued after Janauray 1, 1987.

To obtain the new 8038, municipal officials may obtain order forms from their local IRS office. The forms themselves are available at 3 IRS distribution centers. NLC will attempt to make the new forms available directly for direct member cities.

§ Form 8038-G (the one shown) is the information return for governmental bond issues. The first return must be filed by April 15, 1987 for governmental bonds issued in the first calendar quarter of 1987, and then on the 15th day of the second month after the close of each succeeding quarter (same future schedule as for the 8038's).

§ Form 8038-GC will be the consolidated information return for small tax exempt governmental issues. It is not available yet, but municipalities are not required to file this form until February 15, 1988, and annually thereafter. The form applies to tax exempt borrowings of less than $100,000. ☐

This form may be cut out or xeroxed and used to comply with new federal filing



Form **8038-G**
(December 1986)
Department of the Treasury
Internal Revenue Service

Information Return for Tax-Exempt Governmental Bond Issues
▶ Under Section 149(e)
(Use Form 8038-GC if issue price is under $100,000.)

OMB No 1545-0720
Expires 12-31-89

Part I Reporting Authority Check box if Amended Return ▶ ☐

1 Issuer's name
2 Issuer's employer identification number
3 Number and street
4 Report number G198 ___ - ___
5 City or town state and ZIP code
6 Date of issue

Part II Type of Issue (check box(es) that applies)

7 Check box if bonds are tax or other revenue anticipation bonds ▶ ☐
8 Check box if bonds are in the form of a lease or installment sale ▶ ☐

	Issue Price
9 ☐ Education	
10 ☐ Health and hospital	
11 ☐ Transportation	
12 ☐ Public safety	
13 ☐ Environment (including sewage bonds)	
14 ☐ Housing	
15 ☐ Utilities	
16 ☐ Other. Describe (see instructions) ▶	

Part III Description of Bonds

	(a) Maturity date	(b) Interest rate	(c) Issue price	(d) Stated redemption price at maturity	(e) Weighted average maturity	(f) Yield	(g) Net interest cost
17 Final maturity		%					
18 Entire issue					years		

Part IV Uses of Original Proceeds of Issue (including underwriters' discount)

19 Proceeds used for accrued interest — 19
20 Proceeds used for bond issuance costs (including underwriters' discount) — 20
21 Proceeds used for credit enhancement — 21
22 Proceeds allocated to reasonably required reserve or replacement fund — 22
23 Proceeds used to refund prior issues — 23
24 Nonrefunding proceeds of the issue (subtract lines 20, 21, 22, and 23 from line 18, column (c)) — 24

Part V Description of Refunded Bonds (complete this part only for refunding bonds)

25 Enter the remaining weighted average maturity of the bonds to be refunded ▶ _____ years
26 Enter the last date on which the refunded bonds will be called ▶ _____
27 Enter the date(s) the refunded bonds were issued ▶

Part VI Miscellaneous

28 Enter the amount (if any) of the state volume cap allocated to this issue ▶ _____
29 Arbitrage rebate:
a Check box if the small governmental unit exception to the arbitrage rebate requirement applies ☐
b Check box if the 6-month temporary investment exception to the arbitrage rebate requirement is expected to apply ☐
c Check box if you expect to earn and rebate arbitrage profits to the U S ☐
30 Enter the amount of the bonds designated by the issuer under section 265(b)(3)(B)(ii) ▶ _____
31 Pooled financings:
a Check box if any of the proceeds of this issue are to be used to make loans to other governmental units ▶ ☐ and enter the amount ▶ _____
b Check box if this issue is a loan made from the proceeds of another tax-exempt issue ▶ ☐ and enter the name of the issuer ▶ and the date of the issue ▶

Please Sign Here

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief they are true, correct, and complete

▶ Signature of officer — Date ▶ Title

For Paperwork Reduction Act Notice, see page 1 of the instructions.

Form 8038-G (12-86)

Department of the Treasury
Internal Revenue Service

Instructions for Form 8038-G

(December 1986)

Information Return for Tax-Exempt Governmental Bond Issues ▶ Under Section 149(e)

A separate Form 8038-G must be filed for each issue

(**Note:** *Use Form 8038-GC if issue price is under $100,000.*)

(Section references are to the Internal Revenue Code unless otherwise noted.)

General Instructions

Changes You Should Note

All issuers of tax-exempt bonds must report certain information about bonds issued by them during each preceding calendar quarter. Issuers should use Form 8038-G if the issue price is $100,000 or more. If the issue price is under $100,000, issuers should use **Form 8038-GC**, Consolidated Information Return for Small Tax-Exempt Governmental Bond Issues. For private activity bonds, issuers should use **Form 8038**, Information Return for Tax-Exempt Private Activity Bond Issues, to comply with this requirement.

Paperwork Reduction Act Notice

The Paperwork Reduction Act of 1980 says we must tell you why we are collecting this information, how we will use it, and whether you have to give it to us. We ask for the information to carry out the Internal Revenue laws of the United States. We need it to ensure that you are complying with these laws. You are required to give us this information.

Purpose of Form

Form 8038-G is to be used by issuers of tax-exempt governmental bonds to provide IRS with the information required by section 149(e) and to monitor the requirements of sections 141 through 150.

Who Must File

A Form 8038-G must be filed for each issue of tax-exempt governmental bonds issued after December 31, 1986, if the issue price (line 18, column (c)) of the issue is $100,000 or more. Form 8038-GC is filed annually to report all issues of governmental bonds whose issue prices are less than $100,000.

Definitions

- A **tax-exempt bond** is an obligation issued as part of an issue the interest on which is exempt from tax under the Internal Revenue Code.
- A **tax-exempt governmental bond** is a tax-exempt bond that is not a private activity bond.
- A **private activity bond** is generally a bond issued as part of an issue of which: (1) more than 10% of the proceeds are to be used for any private business use; and (2) more than 10% of the payment of the principal or interest is either secured by an interest in property to be used for a private business use (or payments in respect of such property), or is to be derived from payments in respect of property (or borrowed money) used for a private business use. A bond will also be considered a private activity bond if the amount of the proceeds to be used to make or finance loans (other than loans described in section 141(c)(2)) to certain persons exceeds the lesser of 5% of the proceeds, or $5,000,000. These bonds should be reported on Form 8038.

Note: *Bonds described in section 1312(c)(2) of the Tax Reform Act of 1986 to which the transitional rules in section 1312 or 1313 apply are not private activity bonds for purposes of information reporting. They should be reported on Form 8038-G or Form 8038-GC.*

When To File

File Form 8038-G on or before the 15th day of the second calendar month after the close of the calendar quarter in which the issue is issued. Form 8038-G must be completed based on the facts as of the issue date.

Where To File

File Form 8038-G with the Internal Revenue Service Center, Philadelphia, PA 19255.

Specific Instructions

Part I.—Reporting Authority

Amended Return.—If you are filing an amended Form 8038-G, check the amended return box and complete Part I and only those parts of Form 8038-G you are amending by entering the correct information. Use the same report number (line 4) as was used for the original report. Do not amend the estimated amounts previously reported once the actual amounts are determined.

Line 1.—The issuer's name is the name of the entity issuing the bonds, not the name of the entity receiving the benefit of the financing.

Line 2—Issuer's employer identification number (EIN).—If the issuer does not have an employer identification number, enter "none" and attach a completed **Form SS-4**, Application for Employer Identification Number, to Form 8038-G. If, however, the issuer has previously applied for such a number, attach a statement giving the date of the application and the office where it was submitted.

Line 4—Report number.—Number reports consecutively, based on the filing date (not the date of issue). For example, if the issuer previously filed two Forms 8038-G in the 1987 calendar year, the "report number" for the third Form 8038-G would be "G1987-3." If an issuer (e.g., a state) issues bonds through many departments or agencies, the issuer may assign a letter of the alphabet to each department or agency and each may separately number its reports by indicating both the report number and letter (e.g., 5-C, 2-D).

Line 6—Date of issue.—Enter the date of issue. This is generally the date on which the issuer physically exchanges the first bonds that are part of the issue for the underwriter's (or other purchaser's) funds.

Part II.—Type of Issue

Identify the type of bonds issued by checking the appropriate box(es) and enter the corresponding issue price. The issue price does not include interest from the dated date to the date of issue (if payable at regular intervals of one year or less).

Line 16.—Check this line only if lines 9-15 do not apply and enter a description of the issue in the space provided.

Part III.—Description of Bonds

Line 17.—For those bonds issued as part of the issue with the latest maturity date, enter the maturity date, the interest rate (if the interest rate is a variable rate, enter "VR"), the issue price, and the stated redemption price at maturity. If the bonds are reoffered to the public, the issue price should be determined based on the reasonably expected reoffering price. The issue price does not include interest from the dated date to the date of issue (if payable at regular intervals of one year or less). The stated redemption price at maturity is the amount payable (without regard to optional redemptions) at maturity (excluding interest payable at regular intervals of 1 year or less).

Line 18—Columns (c), (d), and (e).—Enter the issue price, stated redemption price at maturity, and weighted average maturity in years (e.g., 8.7 years). The stated redemption price at maturity of the entire issue is the sum of the stated redemption prices at maturity of each bond issued as part of the issue. The weighted average maturity is the sum of the products of the issue price of each maturity and the number of years to maturity (determined separately for each maturity and by taking into account mandatory redemptions), divided by the issue price of the entire issue (from line 18, column (c)).

Line 18—Columns (f) and (g).—Enter the yield only if the yield has been computed. Yield means the yield on the issue for purposes of section 148. If the issue is a variable rate issue, enter "VR" as the yield of the issue. In addition, enter the net interest cost (NIC) in column (g). The NIC for an issue may be determined by dividing the total interest payments for the issue (reduced by any premium or accrued interest and increased by any discount) by the product of the issue price from line 18, column (c) and the weighted average maturity from line 18, column (e). If it is a variable rate issue, enter "VR" as the NIC of the issue.

Part IV.—Uses of Original Proceeds of Issue

Line 19—Proceeds used for accrued interest.—Enter the amount of original proceeds that will be used to pay interest from the dated date of the bonds to the date of issue.

Line 20—Proceeds used for bond issuance costs.—Enter the amount of the original proceeds that will be used to pay bond issuance costs. Include any underwriters' discount (i.e., the difference between the issue price and the net amount received by the issuer).

Line 21—Proceeds used for credit enhancement.—Enter the amount of the original proceeds that will be used to pay fees for credit enhancement that are taken into account in determining the yield on the issue for purposes of section 148 (e.g., bond insurance premiums and certain fees for letters of credit).

Line 22—Proceeds allocated to reasonably required reserve or replacement fund.—Enter the amount of the original proceeds that will be allocated to such a fund.

Line 23—Proceeds used to refund prior issues.—Enter the amount of the original proceeds that will be used to pay principal, interest, or call premium on any other issue of bonds.

Line 24—Nonrefunding proceeds of issue.—Enter here the amount received by the issuer net of any issuance costs and credit enhancement fees, and net of proceeds allocated to a reasonably required reserve or replacement fund and proceeds used for refunding prior issues (including advance refunding). (Subtract lines 20, 21, 22, and 23 from line 18, column (c).)

Part V.—Description of Refunded Bonds

Complete this part only if the bonds are to be used to refund a prior issue of tax-exempt bonds.

Line 25.—Enter the remaining weighted average maturity of the bonds being refunded. Determine the remaining weighted average maturity without regard to the refunding. The weighted average maturity is determined in the same manner as on line 18.

Line 26.—Enter the last date on which any of the bonds being refunded will be called.

Line 27.—Enter the date of issue of the bonds being refunded. If more than a single issue of bonds will be refunded, enter the date of issue of each of the issues.

Part VI.—Miscellaneous

Line 28.—Enter the amount (if any) of the issuer's state volume cap allocated to the issue under section 141(b)(5).

Line 29a.—Check this box if you will not have to rebate arbitrage profits to the United States because the small governmental unit exception to the rebate requirement applies. See section 148(f)(4)(C).

Line 29b.—Check this box if you expect that the 6-month temporary investment exception to the arbitrage rebate requirement will apply. See section 148(f)(4)(B).

Line 29c.—Check this box if you expect to earn and rebate arbitrage profits to the United States pursuant to section 148(f).

Line 30.—If any portion of the issue will qualify for the small issuer exception to section 265 contained in section 265(b)(3)(B)(ii), enter the amount of the bonds that will qualify for the exception.

Line 31a.—Check this box if the proceeds of the issue are to be used to make loans to other governmental units and the interest on those loans will be tax exempt.

Line 31b.—If the issue is a loan made from the proceeds of another tax-exempt bond, enter the name of the issuer and the date of issue of those bonds.

Signature

Form 8038-G must be signed by an authorized representative of the issuer.

About The National League of Cities

The National League of Cities was established in 1924 by and for reform-minded state municipal leagues. It now represents 49 leagues and more than 1,300 cities directly and, through the membership of the state municipal leagues, more than 16,000 cities indirectly.

NLC serves as an advocate for its members in Washington in the legislative, administrative, and judicial processes that affect them; develops and pursues a national urban policy that meets the present and future needs of our nation's cities and the people who live in them; offers training, technical assistance and information to municipal officials to help them improve the quality of local government in our urban nation; and undertakes research and analysis on topics and issues of importance to the nation's cities.

NATIONAL LEAGUE OF CITIES
1301 Pennsylvania Avenue NW
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